

JUN 27 1949

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JUNE 1949

ONE SHILLING

The King was in the Counting House

Counting out
money has ever
ranked high on
the list of man's
tribulations. His

schooldays are clouded with vexatious purchases
at so-much and elevenpence farthing per gross.
Leaving school, he is like as not set to work on
day book, journal and ledger; and woe betide him
should a perverse penny play hide-and seek among
his long tots and cross tots!

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The New President and Vice-President

We are pleased to announce that Mr. A. Stuart Allen, F.S.A.A., of 36, New Broad Street, London, E.C.2, was elected President of the Society of Incorporated Accountants following the annual general meeting on May 25. The new President was articulated to the late Mr. A. F. Saunders, F.S.A.A. He became a member of the Society in 1926 and was elected Vice-President in January last. Mr. Stuart Allen is Adviser to the Finance and Taxation Committee of the Association of British Chambers of Commerce. He gave evidence before the Cohen Committee on Company Law Amendment.

Mr. C. P. Barrowcliff, F.S.A.A., senior partner of C. Percy Barrowcliff & Co., Middlesbrough and Leeds, was elected Vice-President of the Society.

Land Planning and Ownership

A paper on *Land Planning and the Economic Functions of Ownership* was read recently before the Chartered Auctioneers' and Estate Agents' Institute by Sir Arnold Plant, Professor of Commerce in the University of London.

The salient conclusions of Sir Arnold's closely reasoned argument were:

1. Expropriation of development rights should be confined to undeveloped land, including agricultural land.
2. Compensation could then be much less confiscatory and discriminatory than under the Town and Country Planning Act, 1947.
3. Adequate control over further development of developed land could be secured under powers existing before the passing of the Act.
4. The attempt to control every material change in the use of land seriously hinders economic progress and induces inflexibility in the administrative machine.
5. The assessment of development charges will place an impossible burden on the limited number of expert valuers and will lead to undesirable bargaining.

We feel that this paper will be of interest to Incorporated Accountants and, through the courtesy of the Secretary of the Chartered Auctioneers' and Estate Agents' Institute, the Society has been furnished with

Professional Notes

Incorporated Accountants' Meetings

THERE WAS A FULL ATTENDANCE OF MEMBERS OF THE SOCIETY OF INCORPORATED ACCOUNTANTS at the sixty-fourth annual general meeting held on May 25. The address of the retiring President, Sir Frederick Alban, G.B.E., J.P., who was in the chair, is published later in this issue and is the subject of our editorial article on page 137. We also give, on pages 157 to 159, a report of the discussion after Sir Frederick's speech.

Following the annual general meeting, an extraordinary general meeting was held and special resolutions amending the articles of association of the Society were passed. The most important of these amendments provided that the number of Council members should be increased from not more than thirty to not more than thirty-eight; that Associates as well as Fellows of the Society should be eligible for election to the Council; that one-third of the members (other than the two members elected by the Scottish Branch), consisting of those members longest in office, should retire annually, but should be eligible for re-election; and that it should no longer be expressly provided that one-third of the Council members must be from London and one-third from the Provinces. It was considered desirable that these changes in the articles should be made in advance of the more comprehensive re-casting of them which will probably be recommended by the Council to the members after the comprehensive review of the Society's constitution, now in progress, is completed.

The Incorporated Accountants' Benevolent Fund held its annual general meeting following the extraordinary general meeting of the Society. The President of the Fund, Sir Thomas Keens, D.L., took the chair. An account of the proceedings and the annual report will appear in the next issue of ACCOUNTANCY.

prints. The Secretary of the Society will be pleased to send a copy to any member upon application.

Colliery Nationalisation—Rights of Preference Shareholders

Holders of preference shares in nationalised undertakings had built their hopes on Section 25 of the Coal Industry Nationalisation Act. This Section provides that arrangements made among the various classes of shareholders for distributing compensation moneys ("adjustment schemes") under the Act should take account of the relative income expectations enjoyed by the various classes. Now the House of Lords has ruled in the case of two colliery companies, *Wilsons & Clyde Coal Co., Ltd.*, and *Chatterley-Whitfield Collieries*, that the memorandum and articles of association override the Section. This means that holders of preference shares get their contractual rights in a liquidation—no more and no less. This is the last word of the law on the point. But a forced winding-up, made necessary because the business has been taken away, was never contemplated by those who made or accepted the various terms of issue of shares and experience of such a happening is virtually non-existent. Liquidations of public companies are unusual; the alternative is usually a scheme of arrangement to which all parties have to give their consent before it receives the sanction of the Court. The consequences of the decision of the House of Lords are so directly in conflict with the expressed desire and intention of Parliament that amending legislation appears to be called for.

The Institute's Annual Meeting

The Institute of Chartered Accountants held its sixty-eighth annual general meeting on May 4, with the President, Mr. B. H. Binder, in the chair. In that part of his address dealing with domestic affairs, Mr. Binder devoted considerable attention to articulated clerks. All newly articulated clerks must now become members of students' societies and their principals are responsible for the fees of the societies. The clerks could have up to one year's leave of absence for study, could serve for periods not exceeding six months outside England and Wales and could spend periods of not more than six

months in industrial, commercial or other approved organisations. The total time so spent away from the principals' offices must not, however, be more than one-third of the term of the articles. Mr. Binder disclosed that the majority of new articles were subject to a nominal premium or no premium at all and that reasonable salaries were now frequently paid to articulated clerks.

In his more general remarks, Mr. Binder concentrated upon the heavy burden of taxation. To penalise by taxation corporate savings made by way of reserves would seem incredible, he said, if it were not true. Even with the profits tax, however, there was a differential between distributed and undistributed profits—a differential which Mr. Binder suggested was an example for a reformed income tax. Surely profits ploughed back, rather than attracting taxation, should be encouraged by tax remissions. He hoped that the increase in initial allowances proposed in the Budget was a step towards future legislation which would correct the anomaly whereby full-scale taxation was imposed on savings required in the national interest.

Stock Exchange Costs and Membership

The accounts of the London Stock Exchange for the year to March 24 show total revenue virtually unchanged at £565,626 and running costs, including debenture interest, slightly higher at some £306,000 before income tax. It may be recalled that in November, 1947, the then existing shares were converted into annuities. The annuities may be held by the public, whereas the shares could not. The dividend for the previous complete year cost £88,000 net, whereas the annuities call for £160,000 gross. After adjusting for income tax the final result is to leave a trifle more available for addition to reserve than was the case a year ago.

When it is remembered that 1948-49 started with business at a very satisfactory level and that costs are at present rising while business is falling off, it will be seen that the task facing those responsible for running the Exchange is none too simple. The financial position is, in fact, rather less satisfactory than the gross figures suggest. The main items of revenue are

subscriptions and entrance fees of members and clerks. A rise in members' payments last year was almost exactly offset by a fall in those of clerks. There was a considerable addition to membership despite the dwindling prospects of Stock Exchange prosperity, the reason being that entrance fees were to be increased by two-thirds after May 1, 1949, while old nominations, which fell in but were not used during the war, had lapsed within the year. It should also be remembered that it has cost less to become a member in recent months than for a very long time past: by way of the so-called "three-decker" system of graduating from clerk to member it has cost less than £400. There was a rise of 115 in net membership and a fall of 171 in the number of "House" and Settling Room clerks, but there was also a large rise in the number of members acting as clerks.

One would suppose that with the rise in entrance fees and the fall in activity additions to membership will be small this year. This, of course, helps to explain why the Council recently thought it necessary to make a charge for quotations to new applicants and why there may be further increases. Incidentally, the revenue for the year just ended included a contribution of £7,772 from fees paid to the new Centralised Delivery Department. The costs of this new venture do not seem to be distinguishable in the accounts and it is to be hoped that it is yielding a profit. Some economies for the Exchange—and for its members—can still be achieved by the extension of centralised services.

Time Limit for Land Development Claims

While in the past month there has been an increase in the number of claims submitted under Section 58 of the Town and Country Planning Act, 1947, many owners of land have still not claimed their share in the central fund of £300 million available as compensation for loss of development rights. Presumably the cause of this hesitation is in many cases uncertainty about the amount of compensation receivable. Only about 106,000 had claimed by the middle of May and their claims came to only a small fraction of the £300 million. It cannot be in the interests of any owner of land not to submit his



A. STUART ALLEN, F.S.A.A.

President of the Society of Incorporated Accountants

claim, even if he is sceptical about the amount of compensation he will receive.

The last date upon which claims will be admitted is June 30, 1949. Practising accountants and others concerned should therefore make an urgent decision to complete and lodge the claim form S.1 as a protection against depreciated values.

Although the last day of this month represents the last day for lodging claims with the Central Land Board, the time limit for completing the optional part of the claim form (questions 26 to 28, usually requiring the services of professional advisers) has been extended to October 31, 1949. In cases where an expert valuer has been retained, the statutory claim form S.1 must still be lodged by June 30, 1949, but may be endorsed by the valuer to the effect that his figures will be forthcoming not later than October 31, 1949.

A further extension is to be granted

to owners of certain mineral rights, although up to the time of going to press the new time limit has not been announced.

Official Receiver's Fee as Provisional Liquidator

When the Official Receiver acts as provisional liquidator in a winding-up, his fee is normally calculated on the value of the company's property as estimated in the statement of affairs. Where, by order of the Court, the submission of a statement of affairs has been dispensed with, the fee is to be calculated on the value of the company's property as estimated by the Official Receiver. This is laid down in a new order (S.I. 1949, No. 850, L.8) which came into operation on May 10.

Coal Industry Tribunals—Scotland

Mr. D. R. Matheson, M.A., LL.B., F.S.A.A., Edinburgh, a member of the Council of the Society of Incorporated

Accountants and President of the Scottish Branch, has been appointed by the Secretary of State for Scotland as a member of the accountants' panel for Tribunals for Scotland established under Sections 24 and 25 of the Coal Industry (Nationalisation) Act, 1946. The composition and functions of the Tribunals were described in ACCOUNTANCY for December, 1948, page 266.

Annual Meeting of Certified Accountants

The predominant theme of the Presidential address of Mr. T. E. A. Killip, at the annual general meeting of the Association of Certified and Corporate Accountants, was the effect of rising prices upon the treatment of fixed assets and stocks. Mr. Killip was not convinced by the arguments advanced against the "replacement cost" basis of charging for the usage of these assets, except that he considered that real difficulty arose with the balance-sheet.

If fixed assets stand in the balance-sheet at historical cost, less depreciation based on replacement cost, the written-down value appearing in the balance-sheet would be too low if prices had risen since the asset was originally bought, and too high if prices had fallen. The same would be true of stocks if they were valued on the LIFO basis. This difficulty, said Mr. Killip, could be overcome by debiting profit and loss account with the replacement cost of assets used up, crediting the asset account with the historical cost of such assets, and crediting the difference—assuming costs were rising—to a capital adjustment reserve. By this method, which was equally applicable to fixed assets and to stock, assets would continue to appear in the balance-sheet on the orthodox basis of historical cost. If it were thought desirable to adjust them in the light of changes in current values, the assets could be written up or down to these current values, corresponding entries being made to the capital adjustment reserve.

Rights of Dissident Shareholders

The decision of Mr. Justice Vaisey in *In Re Press Caps, Ltd.* (to which we referred as "*In Re Metal Box Co., Ltd.*" in our comments in ACCOUNTANCY for May, p. 110), has now been reversed by the Court of Appeal. The decision in the Court below appears to have been largely based on the assumption that one of the company's assets had been substantially undervalued in the balance-sheet. The item in question related to "freehold property," which it was admitted was of the value of £90,000, whereas the relevant item in the balance-sheet was described as: "Freehold property—at cost less depreciation £29,708 17s. od." The Court of Appeal, however, appear to have viewed the matter from an entirely different angle, as the result of which they came to the conclusion that the offer that was made for the acquisition of the shares was in all the circumstances a fair one. They affirmed the principle laid down by Maugham, J., as he then was, in *In Re Hoare & Co.* (1934, 150 L.T.R. 374), in which case he made the following comment:

Without expressing a final opinion . . . because there may be special circumstances in special cases, I am unable to see that I have any right to order otherwise . . .

unless it is affirmatively established that, notwithstanding the views of a very large majority of shareholders, the scheme is unfair.

In the *Press Caps* case, three factors appear to have influenced the Court of Appeal in arriving at their decision. Firstly, the entry in the balance-sheet was not to be regarded as a valuation of the freehold property. The item was expressed as "Costs, less depreciation." Secondly, account had to be taken of the fact that the price of 7s. a share which in effect was being offered for the shares being purchased was 1s. 3d. above selling price. Thirdly, there was evidence that the item representing the patents and goodwill was overvalued in the balance sheet. In the circumstances accordingly the offer could not be regarded as unfair. The decision serves to illustrate once again the difficulties of discharging the onus of proof in such cases.

The Eire Budget

Expenditure of the Government of Eire is estimated at £72,881,000 for the current financial year, after deducting capital expenditure to be met by borrowing. The estimated revenue is £72,916,500, including a transfer of £300,000 from the Road Fund.

The principal alterations in taxation are as follows:

Income Tax

Standard rate reduced from 7s. to 6s. 6d.

Allowances for dependent relatives increased from £25 to £50, and for a housekeeper from £45 to £100.

Child allowance to be granted if the child is alive at any time during the year of assessment.

Wear and tear allowances under Schedule D to be extended to persons chargeable under Schedule E.

Corporation Profits Tax

Foreign companies trading in Ireland to be charged at the same rate as Irish companies (10 per cent. instead of 12½ per cent.).

Customs Duties

The balance of the additional duty imposed by the supplementary Budget of 1947 on wines, except sparkling wines, is removed.

The import duty on newsreel films is abolished.

Stamp Duties

The duties of 5 per cent. for nationals and 25 per cent. for non-nationals on the purchase of property are to be made effective by new legislation. Various loopholes will be sealed.

Northern Ireland Budget

Presenting his Budget in the Northern Ireland House of Commons during May, the Minister of Finance, Major J. M. Sinclair, stated that the estimated revenue of Northern Ireland for 1949-50 was £65 million. The total estimated expenditure was £45 million, leaving a credit balance of £20 million.

The method of raising revenue is largely outside the control of the Parliament of Northern Ireland, taxes in the main being the same as those imposed at Westminster. However, the limited field of "transferred" taxation is within the jurisdiction of Belfast. Within this field, Major Sinclair proposed that Northern Ireland should follow Great Britain in the abolition of legacy and succession duties and in the increase of the estate duty scale on estates of more than £17,500. While in Great Britain the net result of the same changes is expected to be an increase in the yield, Major Sinclair estimated that in Northern Ireland the loss from legacy and succession duties would just about balance the gain from the increased scale of estate duty. He recognised that the changes might create anomalies—presumably he had in mind anomalies such as we indicated in our editorial article last month, which so far have not been officially admitted at Westminster. Because of these anomalies, discussions on the operation and effect of the changes would be conducted with Whitehall before the Finance Bill embodying them was introduced.

There were also some minor downward adjustments in entertainment duties, not paralleled in the Budget for Great Britain.

The contribution to the Imperial finances was £20 million, a reduction of £1.5 million on the previous year's figure. This contribution is for expenses which are the responsibility of the United Kingdom as a whole: National Debt charges, defence and certain items of civil expenditure. After meeting it, there was an estimated surplus of £62,000.

ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

The Annual Subscription to ACCOUNTANCY is 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 0d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.

Economics and Accounting

IN AN ALL-ENDURING PHRASE, Mr. Churchill once spoke of Britain and the United States as being "mixed-up together." The expression might be applied to economics and accounting. No longer do a few intrepid explorers venture into the intellectual darkness of the "No-man's Land" between economics and accounting. Some of the paths have been lit and charted: the direction in which others will lead has been made plain. Economists and accountants are daily finding their subjects more and more mixed-up together.

Just how true this is can be seen from the speech of Sir Frederick Alban reported on later pages of this issue of ACCOUNTANCY. His Presidential remarks to the members of the Society of Incorporated Accountants, assembled some days ago in their annual general meeting, were largely given up to the economic issues with which the members—as a large and general body of accountants and not as a small and select vanguard—have to cope, both in their daily work and, even more important, in their thinking. It is partly a matter of the accountant's obvious bread-and-butter interest in business affairs, for in this sense the accountant is more than ever before concerned with the economic problems of his business clients. But there are also involved large questions of economic policy, in which the accountant now has a rôle—a responsible rôle, and one, moreover, which he cannot escape.

A reading of Sir Frederick's address shows how much more complex has become what we have called the bread-and-butter aspect of the accountant's job in recent years. For example, the function of the accountant in business management is of growing importance. So, too, the working-out of "efficiency-audits," to supplement and

extend the customary financial audits, is a task facing accountants, like other experts, in the coming years.

It is in even larger economic issues, however, that the theme of Sir Frederick's address is to be found. He was rightly exercised over the problems presented to accountants by the rise in prices. Drawing particularly upon the experience of the United States in this context and upon the animated discussions between accountants and economists that have been in progress there, Sir Frederick brought out the two-fold problems:

- (a) Should accounting principles be reformed so as to be based on the conception of economic values as opposed to financial values?
- (b) Should the taxation system be amended so as to be based on the conception of economic profit as opposed to financial profit?

In the finding of answers to these questions, it is, we would suggest, abundantly clear that the accounting profession will have to concentrate its attention upon the first. For if the Exchequer is urged by the profession to adopt a more "liberal" idea of profit during periods of rising prices—in the extreme form, to move towards the "replacement" basis for depreciating fixed assets and towards something approaching the LIFO basis for computing stock usage; in the more moderate form, to increase depreciation allowances beyond 100 per cent. of original cost—it will surely have first to formulate accounting principles which are consistent with such far-reaching changes in fiscal assessments. It seems to us, therefore, that Sir Frederick was obeying the logic of the situation when he devoted his argument mainly to the first of the two questions. And the conclusions to which his argument led appear to be incon-

testable. Accounting opinion on both sides of the Atlantic, he said, is substantially to the effect that "no basic change in the accounting treatment of plant and machinery is practicable or desirable under present conditions to meet the problem created by the decline in the purchasing power of the monetary unit." The immediate problem is to be met, rather, by financial management, by careful decisions on what part of profits, computed on conventional lines, is to be distributed, what part retained for replacement of assets. This does not rule out changes in the methods of tax assessments, but it makes them changes of policy, not of principle.

There are some accountants and many economists who would reject these conclusions. Both groups would probably be more numerous among Americans than among British (though we wonder whether even in the United States they have become less numerous in recent months, while prices there have been tumbling). The reasons for this lie, it seems, partly in the special responsibilities which the British accountant carries, in comparison even with his American colleague. We have placed emphasis upon the inextricable mixing-up of accountants and economists. But it must not be forgotten that the legal background of accounting is older and more firmly established than the economic one, in Britain especially; that the accountant's daily work is carried on in a matrix of legal rules and restrictions; that, more particularly since the passing of the new Companies Act, the accountant is very far from being a free agent in what he does to accounting documents. We would particularly commend to readers the passage in Sir Frederick Alban's address in which he pointed to the strict statutory requirements which the accounts of a limited company are required to satisfy, requirements laid down in the interests of proprietors, the general public and the tax authorities. The economist is in the enviable position of entering the debate on replacement costs, LIFO, depreciation allowances and so on, untrammelled by responsibility, other than that imposed by conscience and intellectual honesty. The accountant, especially the British accountant, has in addition a clearly defined responsibility, writ into the law of the land.

The President's Speech

A full report of the speech by the President, Sir Frederick Alban, C.B.E., J.P., F.S.A.A., at the annual general meeting of the Society of Incorporated Accountants on May 25.

INTRODUCTION

I have pleasure in moving the adoption of the Sixty-fourth Annual Report and Accounts of the Society for the year 1948.

Obituary

It is with sorrow that I refer to the great loss sustained by the Society, and particularly by the members of the Council, through the death of Mr. Fred Woolley and the death of Mr. John Paterson Brodie. Mr. John Paterson Brodie was in office as Vice-President at the time of his death in November last. Throughout the long period of his membership of the Council he fulfilled his duties with assiduity and great regularity, no matter at what inconvenience to himself. Always, he quickly grasped the heart of a problem and combined a conciliatory attitude with a readiness of decision. We had looked forward to the time when he would have taken the Presidential Chair—an anticipation which had afforded him much pleasure. We miss his robust character, his always helpful co-operation and his valued friendship.

Two years ago from this Chair my predecessor, Mr. Fred Woolley, gave you an account of the work of the Society immediately after the war—particularly for ex-Service members and students—which he did so much to promote by his own zeal and by his friendly inspiration of others. With great regret I refer to the recent passing of our esteemed colleague and pay a high tribute to his useful life, devoted for many years to the interests of the Society and to the welfare of the County and Borough of Southampton, of which he was successively Sheriff, Mayor, Alderman and Honorary Freeman.

Sir Harry Hands, to whose regretted death the report refers, had rendered valuable service as Chairman of the Society's South African Western Committee, Cape Town, and was a distinguished Lord Mayor of Cape Town during the Great War of 1914-1919.

The past year has been marked by intense if not spectacular activity throughout the Society. The Annual Report is in a more extended form and appendices have been added to provide you with current information of importance.

Incorporated Accountants' Hall

You will be glad to know that the Ministry of Works have granted a licence to the Society for the restoration of the main structure of the Hall in accordance with plans prepared by Sir Percy Thomas, a Past President of the Royal Institute of British Architects.

Work has been proceeding for some weeks and with the goodwill of the contractors we hope the job will be completed in about eighteen months' time: but there are unknown factors and I forbear to prophesy. Meantime, the office of the Society is in temporary premises quite near to the Hall. This arrangement is convenient: we have the complete use of a self-contained building, although it may not be particularly elegant.

NATIONALISATION AND THE ACCOUNTANCY PROFESSION

The paper on "Socialisation in Great Britain and its effect on the Accountancy Profession," which I was privileged to

present to the American Institute of Accountants in Chicago in September last, attracted widespread interest amongst practising accountants and other professional men in both the United States and Canada. Let me confess at once that our American professional friends, almost without exception, were inclined to shy at the word "Socialism." Yet they conceded, albeit with hesitation, that Britain was doing fine work towards recovery, despite what seemed to them to be the "strait-jacket" of Government direction!

The point which I emphasised was readily appreciated—that accountants in Great Britain were not concerned, as a profession, with the political aspects of nationalisation. Parliament having decided that certain needs should be met by public administration, our duty was to place at the service of the new public authorities the highest standard of accountancy skill. I was able to assure my critical audiences not only that the new nationalised industries were under statutory obligation to conform to the best accounting practice, but that their accounts would be audited by independent professional auditors in no way under the control of Government Departments.

Professional Independent Audit and Internal Audit

None the less, the effect on the profession of a large-scale transference of separate industrial units to one all-embracing public authority could only be far-reaching. It seemed inevitable that there would ultimately be a concentration of the independent external audit work in the hands of the larger firms of practitioners—to the exclusion of the considerable number of smaller firms previously engaged upon this work when the industries were separate industrial units. There was bound to be a large extension of *Internal Audit* by staffs of whole-time specialist auditors, on the pay-roll of the employing body, for the purpose of carrying out detailed checkings.

Long-term Effects

The full effect of these changes had not then been felt by public accountants practising in Great Britain, inasmuch as the public authorities had sought the co-operation of the profession generally and had appointed many firms, in different parts of the country, to act for them in preparing accounting reports relative to acquisition, compensation and so on. Again, arrangements had been made, in some instances, for local sections of the accounts of a public authority to continue to be audited, for the time being, by the auditors previously engaged on that task.

This, however, was only a temporary phase, and, from many communications which I receive as President of the Society, it is obvious that the interim arrangements for continuing the services of practising accountants are now coming to an end; thus important fields of work are being finally closed to the practising accountant.

It will be of interest if I give some approximate particulars of the number of undertakings absorbed, or likely to be absorbed, by the chief nationalisation schemes, as this is an indication of the number of independent practising accountants and auditors who have been, or who may be, displaced.

Nationalisation Schemes—Number of Independent Units Absorbed or likely to be Absorbed (approximate)

	Local Authorities	Boards and Companies
Coal Industry (Nationalisation) Act, 1945	—	900
Electricity Act, 1947	359	195
Transport Act, 1947 :		
Railway undertakings	—	59
Canal & Inland Navigation undertakings	—	18
Road (Goods) Transport undertakings	—	say 3,000
Road (Passenger) Transport undertakings	?	?
Gas Act, 1948	275	742
Iron & Steel Bill—proposed	—	107

NATIONALISATION AND MANAGEMENT—THE "EFFICIENCY AUDIT"
The nationalisation of vast industries concerned with basic supplies and services—coal, electricity, transport, gas—which are themselves a primary part of the cost of all other industries, calls for the highest qualities of "Management." The nation's standard of living is bound up with the quality, quantity and cost of the service which these nationalised industries are able to render.

The Measurement of Efficiency

Of course, supervision and audit cannot take the place of sound fundamental policy and wise leadership; but it may well be asked—How can the efficiency of a nationalised industry be fairly measured in the true interests of the public, consumers, workers and governing body itself, without, at the same time, involving political controversy? On the one hand, there is the absence of the former checks under private enterprise of "financial profit" and "consumer's choice"—old-fashioned, perhaps crude and myopic, yet simple, automatic and effective. On the other, there is the presence of monopolistic powers as to supply, price and quality, and in the last resort willy-nilly the financial backing of the taxpayer.

It becomes essential, then, to supplement the usual and indispensable "financial audit" and to establish other objective checks to test or measure (taking a long-term and comprehensive outlook) true "efficiency" and to locate inefficiency.

The "Efficiency Audit"

For tests of this kind, the term "Efficiency Audit" has come into popular use as one expressing (so far as applicable to the industry concerned, the peculiar requirements of which must, of course, have primary consideration) the differing techniques at varying levels of a wide range of practical specialists and functional experts, as well as of practising and industrial accountants. I venture to suggest that all who are associated with management are immediately concerned with the necessity of experimenting in and gradually evolving methods of efficiency audit. This is particularly true of all large organisations and may well be vital in relation to nationalised industries.

Accountancy and Management

Sir Charles Renold (Chairman of the Council of the British Institute of Management) recently described accountancy as one of the indispensable techniques of management.

The establishment of vast industrial enterprises under public ownership makes even more clamant the demands of management for the service which accountancy can give in the day-to-day administration of large-scale industrial concerns. The

problem of training the accountant-of-the-future needs serious examination, and no ready solution is in sight.

Ways and means need to be sought for introducing considerable flexibility in training; for combining that wide and varied experience and detailed instruction available only in the office of a *practising accountant* with the outlook and techniques which are essential to *industry*; and, as far as practicable, for the integration of both of these aspects of professional training with a *University Course and Degree* under the scheme already in operation in Great Britain between the universities and the professional accountancy bodies.

I am glad, therefore, that our District and Students' Societies are directing and intensifying their training methods with these requirements prominently in mind. It was appropriate, too, that the subject of efficiency control was dealt with at the recent Incorporated Accountants' Course at Gonville and Caius College, Cambridge, in the following papers:

"MEASUREMENT OF EFFICIENCY," by Mr. L. C. Hawkins, F.S.A.A. (Member of Council),

"BUDGETARY CONTROL," by Mr. D. F. Evans-Hemming, F.C.W.A.,

"A STANDARD COSTING SYSTEM IN OPERATION," by Mr. Lawrence W. Robson, F.C.A.,

which were read and keenly discussed in both general and group sessions.

I would add that the Society continues to give cordial support to the British Institute of Management, on the Council of which is my colleague, Mr. R. E. Yeabsley.

THE COMPANIES ACT, 1948

The application of the code of requirements laid down in the Companies Act, 1948, and its Schedules, as regards the substance and form of accounts has placed new responsibilities and additional burdens on the accountant and the auditor. On the other hand, it has put at the disposal of those interested, including the general public, much more information to enable them or their expert advisers to assess the financial position and trading prospects of the undertakings in which they are interested.

Published Accounts: Is there too much detail?

While the provisions of the Act as to accounts mainly follow the advice of the accountancy profession given to the Cohen Committee, even our short experience of its operation already suggests that the obligations may have been set forth in too great detail. The result is often an elaboration of particulars, as well as a mass of explanatory notes, which, while of great value to the expert, including our erudite financial editors, cannot readily be assimilated or understood by those lacking an expert knowledge of accounting methods. Moreover, the procedure has involved delay in the completion and publication of accounts, though this perhaps is a passing phase.

Accountants stepping back to admire the products of their skill may well think, on reflection, that most of the people for whom, in accordance with the desire of Parliament, the elaborate accounting service is being rendered do not understand what they are getting.

The conception of a balance-sheet as an estimate of value of fixed assets persists and indicates that, despite recent legislation, failure to comprehend the functions and use of the balance-sheet, as well as its limitations, is rife.

Advantages of Simplification

As a tentative suggestion, I feel that there could be a gradual tendency towards simplification, without prejudicing the salutary

object of giving publicity to the operations of large companies and adequate accounting information to those directly concerned with private companies.

When in the U.S.A. I was impressed by the steps taken to simplify financial reporting and to publish accounts in clear and readable form—eliminating, as far as practicable, accounting terminology and complicated detail—for reference by management, by stockholders, by the Government, by employees and their unions, and by the general public.

In this country, marked improvements have taken place in the method of setting out accounts. But I consider that the next stage in the continuous evolutionary process is towards simplification, or possibly the publication of detailed statutory accounts and a simplified form, showing the same position, which can be more readily understood by shareholders. The subject calls for mature consideration, and while some of the principles and methods of American accounting may not be suitable for this country we should do well to study published American accounts, which broadly speaking are presented in ways that can be understood by the lay mind.

THE PROBLEMS OF INDUSTRY

Since the war, the combined effects of prolonged inflation and heavy taxation have severely strained the financial resources of industry on both sides of the Atlantic.

The maintenance—indeed the considerable expansion—of production (involving replacement or modernisation of buildings, machinery and plant, and prompt replenishment and supplementation of inventories) is agreed to be vital to the well-being of a country as a whole. But, in the United Kingdom in particular, industry's shortage of the necessary finance is now alarmingly apparent.

The Main Issues

The problem can be stated under the following heads :

(i) The rise in the price level

It is common ground that the primary and major cause is the rise that has taken place in costs ; prices in general have risen to more than twice the pre-war level—in some instances, e.g., as quoted by the Chairman of the Cunard Steamship Co., Ltd., to three or four times that level.

(ii) The onerous taxation of corporate income

Corporate income is singled out for extremely severe taxation, e.g., the profits tax, over and above the ordinary rates of income tax. Thus income tax and profits tax at once absorb 50 per cent. or more of the profit and leave insufficient margin out of which to meet costs which are not allowed as a charge for taxation purposes, e.g., the cost in excess of original cost of replacing fixed assets as well as stocks and working capital.

"Under existing taxation provision, for every £1 given in wear and tear allowances, an average of £3 in the earnings from current production is needed in order merely to counteract the change in price levels."—(Statement of F.B.I.)

In the result, corporate savings must come from sources subject both to income tax and to profits tax and also in some industries to price controls ; in general, these factors seriously and cumulatively prevent the "ploughing back" of profits on an adequate scale, notwithstanding the commendable and fruitful past efforts of many companies in this direction.

(iii) Taxation of "unreal" profits arising from inventory appreciation

"Unreal" or "fictitious" profits, i.e., the purely nominal monetary "profits" arising from mere inventory appreciation

(although involving replacement at the higher level of cost) are subjected to penal taxation, leaving industry with depleted resources.

As Sir Geoffrey Heyworth (Chairman of Lever Brothers and Unilever, Ltd.), referring to the preservation of capital invested in current assets, has aptly said :

"If it is to thrive, industry must recover in its selling prices the value of the materials it has consumed. But, in a period of rising prices, profits for taxation purposes are inflated by the lower cost at which materials were bought; these profits are taxed, and, because of this taxation, business is left without the means to replace the materials used, in the same volume."

(iv) Depreciation or "Wear and Tear" Allowances

Income tax in Great Britain (as well as official "price control") has never yet adequately recognised the principle that the cost of maintaining new capital intact is a necessary cost to industry, e.g.,

- (a) no allowance for depreciation is made in respect of buildings used as offices or dwelling houses or for retail trade, distribution, and ordinary commercial purposes ;
- (b) in respect of industrial and agricultural buildings, and of machinery and plant, the depreciation allowance is limited to original ("historical") cost.

A Review of the method of computing Profits for Taxation Purposes

I leave for the moment the overriding issue—the rise in the price level.

It is gratifying that the Chancellor of the Exchequer, in his recent Budget statement, removed the anomalous tax on the issue of Bonus Shares.

The Chancellor went on to say that he agreed that there were a number of issues arising out of the present structure of taxation, including the incidence of tax and its effects on risk bearing, that required further examination. He proposed in the first instance to set up a small independent committee whose terms of reference would be "to enquire into the method of computing net trade profits, for the purpose of charging them to income tax and profits tax, and into the question of the basis period to be taken in assessing the tax on the profits so ascertained." The Chancellor added that it would "not be part of this committee's functions to enquire into the general question of the incidence of tax upon industry"; its work would, however, clear the ground for a comprehensive enquiry which he hoped to set on foot at a later stage. Thus, although the general problem is not faced at this stage, there is the prospect of a comprehensive enquiry when the preliminary investigation has been completed.

Wear and Tear Allowances

As regards wear and tear allowances, it may be recalled that when introducing the Income Tax Act, 1945, Sir John Anderson, the then Chancellor of the Exchequer, described it as breaking "fresh ground" and as an advance on a limited front with the object of effecting some agreement between the concepts of "taxable profit" and "commercial profit."

It is significant to point out here that one of the complaints of American industry is that "it has not obtained any such liberalisation of initial depreciation costs as was written into the British income tax in 1945."

In his recent Budget Speech, Sir Stafford Cripps responded in some measure to industry's plea by doubling the existing initial allowance for new machinery or plant, making it 40 per cent. While the immediate result of this concession is important and valuable, it makes no difference in the long run, the total allowances over the whole period of the life of the plant being limited to 100 per cent. of the actual cost. The Chancellor did not deal with the important problem of the limitation of existing depre-

allowances to actual or "historical" cost. May I now attempt to deal with this vexed issue?

The Basis of Depreciation Allowances

The crux of the problem is the rise in the price level. Official answers given from time to time in the House of Commons reveal that over the whole field of personal expenditure the purchasing power of the pound sterling has diminished approximately as follows:

Average—Year	1914	100
" "	1939	63
" "	1945	42
June 1948		36
March 1949		35

The colossal rise in the price level indicated by these figures means that two world wars have destroyed much of the value of the savings of the past and have in fact inflicted substantial "capital levies" upon the wealth of this country. However they may be disguised, e.g., by a rise in the price level, these capital levies have already taken place and proposals to mitigate their effects need therefore to be jealously examined as to their inherent equity. The evil is accentuated when the State taxes the fictitious "profits" represented by a rise in the price level.

It would seem logically to follow that any claim to relieve income from taxation in order to allow for building up capital lost by reason of an increase in the price level should be extended to all savers and not be confined to the owners of the equity interests in industrial business.

I note that this view is accepted by Sir John Anderson, for in the recent Budget Debate he said:

"I have never been able to see a satisfactory method by which industrialists could be permitted to replace their plant and equipment at the much higher level of cost now prevalent out of untaxed income without introducing unfair discrimination between one form of capital and another."

This discussion emphasises the importance of the maintenance of stability in the monetary unit—a matter of political policy at the highest national level. And for practical purposes we must face the fact that the great rise in the price level has already taken place.

THE IMPACT OF PRICE LEVEL CHANGES UPON ACCOUNTING PROCEDURES

Since the war, and particularly during the last year or two, conventional accounting and the accountancy profession have been under the fire of criticism, especially in connection with their disinclination to depart in accounts from what are known as "historic" costs or known figures of actual expenditure. It is asserted that the accounts of many industrial concerns give a false picture because they make provision for depreciation upon the original cost of assets, and not upon the cost—twice at least* the original expenditure—which will be required for their replacement.

For example, in his address at the last annual meeting of the Government-sponsored Industrial and Commercial Finance Corporation, Lord PIERCY, the Chairman, said:

"A number of important industrial concerns have pointed out that depreciation allowances on pre-war equipment do not cover the value of the increment of such equipment which is used up in current production; still less do the depreciation funds accrued on this basis suffice for replacement. It follows that what is currently returned as net profit (and is taxable as such) is a figure in excess of the true profit estimated on economic principles. This fact is widely appreciated; its incidence on industry is serious. Funds built up for replacing equipment, and reserves of all kinds, have been absorbed to a large extent in the working capital which is required for trading at higher values for stocks, work in progress, and debtors."

* The recent Cunard Report quotes the case of a large liner built in 1925 for £167,000, which will cost £625,000 to replace.

Long-term Problems

Two long-term questions have emerged:

- Should accounting principles be reformed so as to be based on the conception of economic values as opposed to financial values?
- Should the taxation system be amended so as to be based on the conception of economic profit as opposed to financial profit?

Accountants have certainly not been oblivious of the rising prices of fixed assets and as far back as July, 1948, ACCOUNTANCY made a pronouncement on the matter for the guidance of members of the Society of Incorporated Accountants and of other members of the profession.

In the course of my visit with Mr. Bertram Nelson and Mr. Garrett to the U.S.A. and Canada last autumn, I had the pleasure of meeting some representative industrialists, economists and accountants of those great countries. They were all seriously worried by the problem of monetary inflation. As a result of the rapid and continuous rise in prices since the war, true industrial profits had been, and were being, grossly overstated. American accountants and economists were exercised in their minds about the impact of rising prices upon accounting procedures, especially in relation to provision for depreciation of capital assets such as plant and machinery.

It was freely asserted that one of the basic accountancy assumptions, namely, the reasonable stability of the monetary unit, had collapsed, that financial statements based on "historic" cost were losing, if they had not already lost, their real significance, and that both balance-sheet and income statement were unrealistic under present conditions.

What, it was asked, were the social and economic consequences of the taxation of "income" arising merely from price inflation, which represented to the nation in the aggregate no economic or real gain?

Was it not clear that if industry failed, or was unable, to make reserves to cover replacement costs, the community would begin to live on its capital?

This subject was certainly the most discussed topic at the American Institute's meeting at Chicago. It was presented in three papers setting forth the separate points of view of the Economist, Management and the Accountant. Later there was a round table discussion which was characterised by lively and emphatic controversy.

The Views of Management, Economists and Accountants

Management pointed out that it was continually the target for demands

- from the consumer for lower prices
- from the worker for higher wages
- from the politician for higher taxes
- from the factory

- for the replenishment of inventories, and
- for the replacement or modernisation of buildings, machinery, plant and equipment,

that in all these claims management must take into account and recover, or allow for, all costs on a current basis, and that, for the requirements of day-to-day management, the historic cost method conventionally used by the accountant in his income statement and balance-sheet might be misleading; such financial statements, possibly indicating profit margins which were unreal because they did not allow for current replacement costs and other relevant factors, could provoke unjustified wage, taxation and similar claims.

Economists said that the accountant's conventional calculations of business income are unacceptable to them. Measuring business income from a consistently economic view over a wide field and not merely in relation to an individual organisation or unit, they are concerned with real additions to wealth; an

upward revaluation of wealth already in existence is not an addition to wealth. The economist, whose object is to relate costs to revenues on the same price level basis, says that the true current cost of materials consumed is not their original cost but their replacement value; hence, the LIFO ("last-in, first-out") method of inventory adjustment (U.S.A.) is broadly in accord with his intention. But *capital* assets consumed in the course of current production should also be charged at the current price—hence charges for depreciation and depletion should be made on replacement values.

The majority views expressed at the Conference by the American accountants, which accorded broadly with those already expressed by our own Society, were later confirmed in a report presented by the Committee on Accounting Procedure to the American Institute of Accountants on October 14, 1948.

Later (in January 1949) an exhaustive and most valuable memorandum issued by the Council of the Institute of Chartered Accountants in England and Wales entitled "Rising Price Levels in relation to Accounts" stated that, after re-examining recommendations made in 1945, it saw no need to modify the advice then given.

Present Conclusions of Accounting Opinion

Broadly, then, the weight of accounting opinion on both sides of the Atlantic is substantially to the effect:

- (i) That no basic change in the accounting treatment of plant and machinery and other fixed assets is practicable or desirable under present conditions to meet the problem created by the decline in the purchasing power of the monetary unit (whether pound sterling or dollar).
- (ii) That the immediate problem should be met by financial management, i.e.,
 - (a) by retaining in the business—not as a charge against, but as an appropriation of, profits—moneys which would otherwise be free for distribution; or
 - (b) by obtaining new capital from outside sources; or
 - (c) by a combination of these methods.

Note.—Obviously (a) is the preferable method. But, bearing in mind that inflation is in essence a general capital levy upon the whole community, care must be taken to avoid, as far as is reasonably prudent and practicable, not only unfairness to the preference shareholders, but the placing of an undue burden upon the shareholders of to-day in the interests of the shareholders of to-morrow.

It should not be overlooked that a new business is obliged to finance itself on the basis of the current price level.

- (iii) That directors should carefully consider the desirability of fully informing shareholders and others concerned as to the effects of the rise in the price levels on the company's affairs and the steps taken or necessary to meet them.

It should perhaps be mentioned that the report of the American Committee on Accounting Procedure contained a dissenting note in the following terms:

"Four of the twenty-one members of the committee, Messrs. Broad, Paton, Peloubet and Wellington, dissented from the conclusion that no basic change in the accounting treatment of depreciation of plant and equipment is practicable or desirable under present conditions. They believe further that inflation has proceeded to a point where original dollar costs have already lost their practical significance and that where depreciation is an important element of cost the advantages which would result from a basic change in accounting treatment outweigh the possible disadvantages which have been advanced against it."

In France (and also in other countries) where, as a result of war conditions, the original monetary unit lost its practical significance, arrangements have been legally sanctioned, for tax and for general purposes, for re-stating assets in terms of the depreciated currency. From a recent paper on the "Revaluation

of fixed Assets in France" by Mr. John Kennerly, A.C.A. (*The Accountant*, December 11, 1948), I quote:

"Recently post-revaluation operating results have not infrequently come as a great shock to owners and operators of businesses. On the former basis these concerns have been showing comfortable profits, paying profits tax thereon, and distributing dividends; but it is now revealed that they are not earning sufficient profits to meet even partial replacement costs, and that for years they have, in effect, been paying dividends from capital."

It may well be asked—How far can inflation proceed without the original dollar or pound losing its practical significance?

I gather that, in the U.S.A., the "current cost" topic still remains a lively one, although the possibility that prices have passed their turning point is taking away some of the urgency that was felt a year ago.

The Problem as regards Accounts

As to the balance-sheet and financial reporting in general, it must at once be pointed out that the published balance-sheet cannot be all things to all men. Much "bunkum" is talked about the balance-sheet!

For example, in the United Kingdom, the accounts of a limited company are documents prepared in compliance with strict statutory requirements to satisfy a variety of points of view, e.g.:

- (1) that of stewardship as between directors and proprietors;
- (2) to show the profits available for distribution, regard being had to the legal rights of the various classes of proprietors;
- (3) for taxation purposes;
- (4) for the information of the general public—publicity being a feature to which modern democracy attaches great value.

For all these purposes the legally prescribed unit of measurement in this country is the pound sterling; in the preparation of accounts for statutory purposes that unit—despite its lack of reasonable stability as a result of war conditions and despite the bringing together of costs incurred at various levels as though they are homogeneous units—must be adhered to.

From the economic point of view, price movements may not affect the real wealth of the nation as a whole; but they are of vital concern to the individual business, where, according to the enterprise and foresight of the entrepreneur, they represent real gains or losses—in the former of which the taxation authority is, of course, also concerned!

From the point of view of management, cost accounting and standard cost accounts—which, although built up from, and reconciled with, financial accounts, essentially take account of current and probable values—supplemented by budgetary control and the like, represent developments of the technique of the accountant which are increasingly rendering valuable service. Still, it must be emphasised that, in the last resort, not accounting technique but pricing policy determines the revenues of a business and therefore its capacity to survive.

ACCOUNTING RESEARCH

I must not, however, leave the impression that the accountancy profession has a closed mind on problems such as the accounting treatment of depreciation, and price levels in accounts.

As Justice Hope (U.S.A.) said:

"... accounting is hardly an exact science. As a representation of the conditions and trends of a business, it uses symbols of certainty to express values that actually are in constant flux."

On both sides of the Atlantic active research is taking place.

In 1947 the American Institute of Accountants, jointly with the Rockefeller Foundation, organised a study group of about fifty persons selected from the fields of law, economics, finance, business, government, labour and accounting to consider the concepts and terminology of business income. Research assistance was procured from the fields of law, economics, monetary theory and accounting. The concepts of income that have been developed

These disciplines are being discussed from the historical and theoretical points of view in monographs prepared under the direction of leaders in their different fields. I had the privilege of attending at Chicago a round table conference of many of those engaged on this valuable task and since then some advance copies of their reports have reached me. These abundantly indicate that our American colleagues are opening new ground in accounting theory and I await their further contributions with keen interest.

The Accounting Research Consultant is Mr. George O. May, of New York City, who is well known as a leader in accounting research. I can vividly picture to you his attitude of mind by a quotation from his writings:

"If we are just going to say that all we can do is just to take the dollars in and out, and say that is all there is to it, and if we are not going to interpret the significance of what is happening—then we are resigning ourselves to a position as hewers of wood and drawers of water, and a craft, and we relinquish the goal that accounting hopes to attain, a position of a highly professional receptiveness to new ideas and a great social usefulness."

Mr. May's contributions to his own Study Group and also to our own *Accounting Research* and to *The Accountant* are valuable and thought-provoking; as an example may be mentioned some of the assumptions and queries put forward from time to time for discussion:

- (a) There is no one economic, or legal, or income tax, or accounting concept of "income." To evolve out of accounting conventions (which are necessarily a compromise between theory and practicability) a determination of income that will serve all purposes, and be readily understandable by the uninitiated, is beyond the power of man.
- (b) Business income accounting is based on the implicit assumption that the business is going to be continued, that business lasts for ever. The legal thinking behind the English double account system (applicable to certain public utilities) accepted wholeheartedly the idea that the enterprise was permanent, capital was invested, and that the determination of income was a problem of matching current revenue against current cost on a current basis.
- (c) Financial statements cannot be said to be correct in any absolute sense but only in relation to some set of standards of accounting conventions.
- (d) At the root of the question is the relation between accountancy and the monetary unit; the war and post-war inflation have raised important questions regarding the suitability of the monetary unit, unadjusted for changes in purchasing power, as the unit of accounting and financial statistics. The monetary unit is the most convenient symbol for use in expressing a great variety of transactions in a common unit. But it remains only a symbol and it should be used in a way which produces or leads to significant conclusions.
- (e) An effort should be made to distinguish sharply in accounts between (i) the profits resulting from normal business operations and (ii) the profits that are deemed to result from a rise in the price levels—which in their total effect are gravely disadvantageous to industry.
- (f) Is "LIFO" accounting (as applicable in the U.S.A. to inventories) broadly a means of bringing costs into account on approximately the same price level as revenues? If so, should the accounting procedures be revised so as to bring the cost of property exhaustion into account at approximately the same level as the revenues?
- (g) Accountants have a very high duty to be constantly studying accounting principles, to make their decisions more realistic and more adapted to conditions. Should they not consider the introduction of new methods—e.g., the stating of revenues, and charges against revenues, in units of substantially similar purchasing power—which would make accounts more useful and significant?

In September last Mr. May uttered this warning:

"If we have a rising price level, with adjustment of wages to correspond to the price level, but without any adjustment in determining other items charged against revenue, we should be not only failing to provide for the maintenance of our installations but ensuring their gradual collapse."

Here I should like to say that Mr. George May is now on a visit to this country and my colleagues and I have had the pleasure of entertaining him.

Our own Society is from time to time adapting its organisation to the fundamental changes and developments that are taking place.

Its Incorporated Accountants' Research Committee was the first accountancy research body to be formed in this country. By publications and competitions, and by the inspiration it has given to lectures, debates and refresher courses at the universities, and in other ways, it has continuously enriched the knowledge of the profession and widened the outlook of its trainees and members.

Recognising that the borderland between accountancy and economics is becoming increasingly significant, and that many earnest workers in both of these fields wish to be kept informed of work on the frontiers of this subject, the Research Committee launched in December last (through the Cambridge University Press) a new publication entitled *Accounting Research*. Drawing from outside, as well as from inside, the United Kingdom for its contributors and subscribers (who include practising accountants, accountants in industry, economists, statisticians and university teachers), *Accounting Research* has the express purpose of dealing with advanced prospects of accounting and subjects intimately associated with accounting—a need which had not previously been adequately met in this country.

The first number contained valuable contributions on the problem of "values" to which I have referred, viz.: "Accounting Research," by Mr. G. O. May, of New York City; "The Nature of Income and Capital," by Mr. F. Sewell Bray; and "Replacement Costs—An Economist's View," by Mr. Leo T. Little.

The demand for the first number was such that it is being reprinted.

May I take this opportunity of reminding our members, both young and old, of the prizes now offered by the Research Committee in order to encourage research on professional subjects, viz., £100 and £50 for the best theses submitted on subjects within the general scope of accountancy or allied subjects, including industrial and commercial administration, public administration, economics and statistics?

TAXATION AND THE ECONOMIC POSITION

The nation owes a debt of gratitude to Sir Stafford Cripps for his realistic and courageous Budget, and for his determined efforts to ease inflationary pressure. Nevertheless one's reflections on the present position cannot be other than sombre. Now, four years after the end of the war, taxation, local and national, is more than 40 per cent. of the national income (compared with U.S.A., 25 per cent.).

Direct taxation, yielding in all £2,000 million this year, includes income tax at 9s. in the £, plus sur-tax, plus profits tax, plus death duties ranging up to 80 per cent.

Indirect taxation will yield in all £1,500 million this year (including beer, etc., £388 million, tobacco, etc., £637 million, and purchase tax £250 million).

Our social services, a permanent and continuing obligation estimated to cost £763 million this year, must be maintained—of course, within feasible bounds. All parties are pledged to that. They can be made an immense asset to the country.

Taxation and Public Expenditure

Unquestionably heavy direct taxation, with its almost irresistible urge to evasion and/or extravagance, discourages initiative and risk-taking. The pioneer who launches out takes the risk of losing all, yet is allowed to keep but little of the gain. Hence private enterprise is in danger of losing its enterprise!

Sir Stafford has dismissed the idea that there is some inexhaustible reservoir of taxable capacity in the country; he says:

"We must rely rather upon the creation of more distributable wealth than upon the redistribution of the income that exists. . . . the redistribution of income entailed in the payment for social services already falls, to a considerable extent, upon those who are the recipients of those services."

While we must all hope for, and actively aim at, an increase in production that will increase the national income, relief from this source will, one imagines, be increasingly difficult to realise. Moreover, productive capacity may itself require the urge of some further incentive by way of taxation relief.

It is difficult to escape the conclusion that (despite the valuable, but necessarily temporary, aid of our American friends) we are "living beyond our means." Indeed is it not obvious from Sir Stafford's recent action in requiring all Government Departments to review their expenditure, and in putting a veto on supplementary estimates, that the Government themselves are forced to the conclusion that *the next step in the economic struggle must be a review and reduction of public expenditure (Government and local)?*

I would again urge accountants, who by reason of their general experience and their costing technique have an intimate and specialised knowledge of the inner working of industries and a deep insight into the make up of "cost," to foster among their clients, their articulated clerks and their staffs a sense of cost control and true economy. In the broader field this object calls, on the one hand, for the withholding of purchasing power, by personal saving and by adding to reserves, and, on the other, for intensified production at competitive standards, both of quality and price.

The Centenary of the Board of Inland Revenue

February, 1949, marked the centenary of the establishment of the Board of Inland Revenue. While that event has hardly been the occasion of public enthusiasm, I feel that a tribute is due from the accountancy profession and from a wider public to the Board and to Inspectors of Taxes for the way in which they have discharged the duties imposed upon them by income tax and finance legislation, especially in devising and administering new schemes (for example, P.A.Y.E.) under conditions of great difficulty. The Board of Inland Revenue has been one of the main instruments with which Great Britain has met her financial obligations in times of stress and is financing the demand for social services.

GOVERNMENT ACCOUNTING

It may be recalled that, in the presentation of last year's Budget, the Chancellor of the Exchequer gave for the first time, as an addition to the conventional form of accounts, an alternative classification, in which an attempt was made to distinguish true revenue items from those of a capital and of a non-revenue nature. Emphasising the experimental character of the alternative classification, he invited criticism upon it.

The Incorporated Accountants' Research Committee exhaustively examined the subject and ultimately a memorandum was prepared by Mr. F. Sewell Bray and Mr. Richard Stone (of the Department of Applied Economics, University of Cambridge). Their recommendations (which are now published in *Accounting Research*) evoked keen interest. I am sure that you, too, are grateful for their enterprise and initiative.

When presenting his recent Budget, Sir Stafford Cripps was good enough to say:

"Various experts have responded to that invitation, and much useful thought and discussion has resulted. The matter is too complicated, however—with its repercussions upon the form of Government accounts beyond the strict field of Exchequer accountancy—to be settled in a short time."

Exchequer accounting is traditionally based on receipts and payments. The memorandum above referred to suggested that

purely cash accounting was inadequate, and should be replaced by accrual accounting.

Trading Accounts of Government Departments

I think, therefore, I ought to explain what the public generally and even many members of the accountancy profession fail to appreciate, viz., that the trading accounts of Government Departments are kept on an income and expenditure basis and are published with balance-sheets, sometimes in special White Papers (like the Post Office Commercial Accounts) but for the most part in one volume which contains the covering report of the Comptroller and Auditor General, a high officer whose status is not unlike that of a Judge (the present holder of the office is Sir Frank Newton Tribe, K.C.B., K.B.E.). The last accounts published (viz., "Trading Accounts and Balance Sheets 1947-48"—published as H.C. 49 of 1948-49), for instance, included those of the Ministry of Food, Ministry of Supply, Board of Trade (Raw Materials Department), State Management Districts, etc.—not even excluding the National Stud!

These accounts are prepared in a form complying with good commercial practice, and are certified by the Comptroller and Auditor General, who appends a report the range of which extends far beyond that of the usual commercial audit report.

The accounts and report are examined by the Public Accounts Committee, who have power to call for the evidence of officials of the Department concerned. They are assisted by the Treasury Officers of Accounts and the Comptroller and Auditor General; the Public Accounts Committee report direct to the House of Commons.

The Exchequer and Audit Department performs its important public service unobtrusively but efficiently and economically; on a number of occasions the Public Accounts Committee of the House of Commons has paid tribute to the impartiality and farsight of the Comptroller and Auditor General's reports and to their valuable results in enforcing financial regularity. I am glad to have this opportunity of adding my own tribute to Sir Frank Tribe and his Department.

RESIDENTIAL COURSES

During my Presidency I have had the pleasure of visiting nearly all the Branches and District Societies in Great Britain and Ireland and in Canada. I must express my thanks for the warm welcome and hospitality extended to me. The activities of the Branches and District Societies are a vital part of the Society's work and claim the support of all members.

A most valuable development has been the short residential refresher courses for students held at universities and university colleges and organised by some of the District Societies and the London Students' Society. I warmly commend a continuation and extension of these courses for students. More recently we held a further course for members at Caius College, Cambridge: we are again indebted to the Master and Fellows for the use of the College. The course was necessarily limited to 100 members, but applications exceeded 500 and I regret that so many members were disappointed.

In regard to all the courses we are most grateful to members and visitors who gave lectures, and to the Secretaries who organised them.

These courses have proved to be a most advantageous method of organising professional education. Not only do members and students derive direct benefit from the lectures and group studies, but the short residence in a college enables them to establish friendly and useful contacts with other members and visitors which are so helpful in professional life. Moreover, we have to think of men and women who will lead the Society in the future. The courses and the District Societies afford opportunity to the

younger members and students and are the spheres of training for those who will bear greater responsibilities in the future of the Society. I also hope that many of the members who have benefited from the courses will in their turn be able to take part in the work of future courses, the success of which largely depends upon the ability of the lecturers and of group chairmen.

REVISION OF THE SOCIETY'S ARTICLES

The Articles and Bye-laws Committee have been engaged upon a revision of the Society's Articles. This has proved to be a formidable task and I am greatly indebted to Mr. Richard A. Witty, the Chairman of the Committee, for the immense amount of time and consideration he has given to this matter.

A large number of points have been agreed and we had hoped to be able during this year to submit the revised draft for your consideration and approval. But this has not proved to be practicable.

Although piecemeal alterations to Articles become necessary from time to time, the main structure of Articles normally subsists over a long period of years and secures certainty and continuity in the administration of the Society's affairs.

We have, therefore, felt that a new set of Articles, rather than extensive revision of the existing Articles, is most desirable. The work of preparing a new set of Articles must necessarily take considerable time. At present, therefore, I cannot state when more comprehensive proposals can be completed and submitted to you.

Meantime, the Council has felt that a revision of the constitution of the Council should be dealt with immediately and that the number of Council members should be extended. The work of the Council and committees is constantly increasing and needs more Council members. Further, by enlarging the membership of the Council, we can ensure that all aspects of the Society's work throughout the country and overseas are continuously before the Council and we can develop a greater degree of co-ordination with the Branches and District Societies.

The precise proposals have been placed in your hands and will be dealt with at an extraordinary general meeting following this meeting.

CO-ORDINATION

The draft Co-ordination Bill is still in the hands of the Board of Trade, but the legislative programme of the past year has made it impossible for a Bill dealing with the accountancy profession to be introduced into the House of Lords or the House of Commons. You will have noticed that on a recent occasion the Right Hon. The Lord Chancellor expressed his continued interest in the subject and his hope that some day the Bill which the accountants' societies had propounded would be introduced into Parliament.

The Companies Act, 1948, embodies some of the principles inherent in the draft Co-ordination Bill but it does not create a statutory profession of accountants. Until that has been achieved we cannot be content.

Meantime, I think we must exercise patience and hope that the legislative programme in Parliament may ease sufficiently to enable attention to be given to our profession. I regret that I am unable to be more specific at the present time.

AUSTRALIAN CONGRESS ON ACCOUNTING

The bodies of accountants in Australia have arranged to hold a Congress in Sydney in November 1949, and sent an invitation to representatives of the Society.

We rejoice to receive that invitation, which the Council has accepted, and the Council has asked our Secretary, Mr. Garrett, to make the visit. Mr. Garrett has met many Australian members

of the profession on past occasions in London, and has frequently corresponded with others, and he now looks forward to meeting them in the Commonwealth.

INTERNATIONAL CONGRESS ON ACCOUNTING, 1951

Prior to the war, it had become an established custom for an International Congress on Accounting to be held about once in every five years. An informal exchange of views between a number of accountancy bodies has indicated the desirability of again giving expression to the international aspects of accountancy, in such ways as may be practicable. Already there has been a considerable exchange of information and of current literature, and, during my Presidency, I have had the privilege of correspondence with members of the profession in all parts of the world.

Accordingly it was decided that an International Congress on Accounting should be held in the not distant future. With the cordial concurrence of our friends in Canada and the United States, the profession in Great Britain and Ireland has offered hospitality and will make the necessary arrangements for an International Congress to be held in Great Britain in 1951.

A Congress Committee has been constituted to undertake the organisation of the Congress. The Chairman of the Committee is Mr. B. H. Binder, the President of the Institute of Chartered Accountants, and I have the honour of being the Vice-Chairman. We look forward to the Congress with much interest, and I rely on the support of Incorporated Accountants in according a warm welcome to the guests of the Congress from overseas.

CONCLUSION

I had the great honour of being elected President of the Society in 1947 and my period of office will shortly expire. I express my warm and heartfelt thanks to my colleagues on the Council for their unfailing support. I am particularly indebted to my Vice-President (Mr. Stuart Allen) for accepting office almost immediately after the death of our friend Mr. Paterson Brodie. It has afforded me great pleasure to have witnessed, and to have taken part in, the quickening of the life and work of the Branches and District Societies—so vital to the progress of the Society. Notable advance has been made in professional education and new developments, to which I have already referred, have not only proved successful but have indicated directions in which there should be fruitful expansion in the future. I welcome to the Society the men and women who have qualified since the war and invite them to take an active part in the Society's work.

Among my happy recollections will be the visit I paid to the United States and Canada, and I would take this opportunity, on your behalf as well as on my own, to record the thanks and appreciation of the Society for the warm welcome accorded to its representatives by the American Institute of Accountants, by the representatives of the profession in Canada and by Incorporated Accountants in these countries, whom I was delighted to meet personally and whose manifestation of high regard for the Society was indeed a stimulating and happy experience.

In conclusion I should like to refer to the Head Office staff. They have carried on the Society's work—ever-increasing, particularly in the examination and research fields—under most difficult conditions, including, as you will have seen from the report, the complete upheaval of a shift from our war-damaged Hall to temporary office accommodation. Nevertheless, not only has the current work been carried on but a measure of reorganisation has been effected. On your behalf, as well as my own, I express to Mr. Garrett, Mr. Craig, Mr. Evan-Jones and the staff our deep gratitude for zealous service most cheerfully rendered.

Points in Practice

SHARE VALUATION

(The effects of Section 55 of the Finance Act, 1940, upon share valuations are considered to be of such importance that further "Points" on the subject will be published in subsequent issues.)

ONE OF THE MOST DIFFICULT TASKS THAT an accountant has to undertake is the valuation of unquoted shares, either for estate duty or on a sale of the shares.

Probably valuation for estate duty presents the most difficulties because of the possibility that the valuation may come within the provisions of Section 55 of the Finance Act, 1940.

Section 55 of the Finance Act, 1940 (As amended by Section 47 of the Finance Act, 1946.)

Briefly, the circumstances in which this Section must be applied are as follows :

First, where the deceased had the control of the company at any time during the five years ending with his death.

Second, where more than fifty per cent. of the dividends or interest on debentures declared by the company for any period falling wholly or partly within the five years ending with his death were to be treated, by virtue of any of the provisions of Sections 47 and 48 of the Finance Act, 1940, as benefits accruing to the deceased from the company.

Third, where the deceased had at any time during the five years ending with his death a beneficial interest in the possession of more than fifty per cent. of the nominal amount of the issued shares or debentures of the company, and no one else at that time had control of the company.

For the purposes of the Section a person is deemed "to have control" if he had control of the voting, or the capacity to exercise the power of a board of directors or of a governing director, or the power to nominate a majority of directors or a governing director, or to veto the appointment of a director of the company.

If any of the foregoing provisions

apply, then the principal value of the shares or debentures is to be estimated by reference to the net value of the assets of the company including goodwill and in accordance with sub-Section 2 of Section 55. This means that, in very general terms, the business should be valued as if it were not really a limited company and on the basis of a "going concern" at the date of death of the deceased.

Section 59 of the Finance Act, 1940, defines certain expressions used in Section 55, and must be read in conjunction with it.

Other Methods of Valuation

(1) The "Returns" Basis

In view of the foregoing, it is apparent that sometimes a compulsory method of valuation of shares may have to be adopted and may result in a figure which the accountant knows full well is out of all proportion to the price which a willing buyer would pay a willing seller. It is a generally accepted view that the chief factor governing the price of a share is the return which will be received from the sum invested, taking into account the degree of security afforded by the rights of the particular class of share. A share which has been paying a steady dividend of, say, 10 per cent. may be considered a reasonable "buy" at 35s. in view of the return which is expected from that type of company and as compared with the price of similar shares. But if the same shares were valued under the rules of Section 55 of the Finance Act, 1940, the price might work out at £10, owing to the conservative policy adopted by the company in the past and the building up of large reserves.

In such circumstances the accountant finds himself in the unhappy position of having to advise his client that the shares must be shown at a value of £10

each when both he and his client know perfectly well that the most they would fetch under a normal arms-length transaction would be 35s. each! Particularly unfortunate is the person who under a will or other deed or instrument is entitled or required to purchase some of the shares at probate value. In the case cited the return, assuming a continued dividend rate of 10 per cent., would be 1 per cent.—not a very good investment!

(2) The "Profit" Basis

Assuming now that the valuation does not come within the requirements of Section 55, another method of estimation is the profit basis. In this case the average annual profits, usually of from three to five years, as adjusted to provide for adequate management expenses and to omit any allocation to reserves, are ascertained and capitalised at the rate per cent. expected as a return from that particular type of business. The result is, of course, divided by the number of shares of the issued share capital, adjustments being made where the class of share being valued is junior to another class of shares having prior rights.

General Problems

Whatever method of valuation is adopted, however, it is feared that the accountant will encounter one or other of the problems which may, for want of a better word, be termed the "imponderables." By this is meant the problem of attaching a value or price to such factors as : (1) The effect of the Town and Country Planning Act, 1947, upon the future development of the company ; (2) the effect upon the profit and future of the company of the death of the governing director or majority shareholder ; and (3) the effect upon the company of possible future nationalisation of that particular industry or an associated industry.

All these factors, and others of a like nature, may materially affect the value of the goodwill of the company. It is suggested that in order to arrive at a satisfactory adjustment of this figure, a personal call upon the appropriate official of the appropriate Government Department is often the best, if not the only, way of explaining the *pros* and *cons* of the situation.

(To be continued)

Notes from across the Atlantic

By CECIL A. ELLIS, A.S.A.A., C.A. (Canada)

The Profession in Canada

The profession of accountancy in Canada is directed by nine provincial Institutes, each of which governs activities, including tuition, within its own territory. As yet no arrangements have been published concerning the recently added tenth province of Newfoundland.

Members of each provincial Institute are automatically members of a co-ordinating body named The Dominion Association of Chartered Accountants. That Association provides a connecting link between all the provincial Institutes. Among other services, it arranges for uniformity of examination standards throughout the Dominion; it represents the profession in Dominion wide matters; and it issues an excellent monthly magazine named *The Canadian Chartered Accountant*, to which has recently been added a "Tax Review."

Initial steps towards becoming a Chartered Accountant in Canada do not entail service of what in Great Britain are known as "articles." Instead, every aspirant must first become a "student in accounts." The procedure, after meeting good educational standards, is to arrange for "student-ship" with a practising Chartered Accountant. The arrangement must then be submitted to the appropriate provincial Institute, which after satisfying itself of the suitability of the arrangement, will give approval, and enrol the aspirant as a "registered student." As such, the student will receive a reasonable salary for services performed for him with whom the arrangement is made and will receive every encouragement to study for the obligatory examinations. Thus the regulations governing steps to becoming a Chartered Accountant in Canada closely resemble some of those adopted by the Society of Incorporated Accountants in the United Kingdom. By removing disabilities coming from lack of "privilege," they are democratic and fair to all.

Once duly qualified, the Canadian Chartered Accountant has this huge Dominion as a field for his activities. Reciprocal arrangements between all the provincial bodies enable any member of a provincial Institute to join another provincial Institute with no formality other than of making application with recommendation from a few members of the receiving body and paying the dues. Some provincial Institutes generously permit British Chartered and Incorporated Accountants to become Chartered Account-

ants in Canada under similar reciprocal arrangements.

Generally speaking, the lot of a Chartered Accountant in Canada is a happy one. The profession is well respected for the excellent work and the high ethical standards of its members. Remuneration compares favourably with that paid in Great Britain. As at May 31, 1948, there were 3,434 Canadian Chartered Accountants, or about 25 for each 100,000 of Canada's 14 million population. Comparison of that ratio, with about 50 Chartered and Incorporated Accountants for each 100,000 of Great Britain's 48 million inhabitants, will show how Canada, in the present stage of vigorous industrial growth, offers relatively wide scope for those who desire to follow the career of accountancy here. Much of interest to those who contemplate the career of accountancy in Canada may be found in a pamphlet entitled *The Career of a Chartered Accountant* which is issued by The Dominion Association of Chartered Accountants, 10, Adelaide Street East, Toronto, Ontario.

Valuation of Stocks

The March, 1949, issue of *The Canadian Chartered Accountant* contains some constructive "Recommendations on the Income Tax Act." Submitted by the Canadian Bar Association and the Dominion Institute of Chartered Accountants, those recommendations contain (among others) some especially interesting references to methods for valuing stocks (inventories). With clear definitions of various valuation methods, they draw attention to the fact that "cost" of an inventory can be any of a variety of values determinable by any of some half-a-dozen methods, and that varying "market" values can be determined by use of any of at least three methods. In drawing attention to the variety of "cost" and "market" values which can so be calculated, the two bodies show by inference how the "lower of cost or market" rule as applied to inventory values is inadequate for practical purposes, so long as the precise methods for calculating "cost" and "market" remain obscured.

It may be suggested that the precise method used for determining "cost" and that used to calculate "market" should be clearly stated in every relevant financial statement. Also, financial statements should show both the calculated "cost" and the "market" value of relevant

inventories in precisely the same manner as is followed in respect of "investments" in marketable securities. Such disclosures of methods and of values would aid investors and others to obtain better understanding of the current and future prospects of the concerns in which they have an interest.

In both Canada and the United States, as well as in Great Britain, the subject of inventory values has received considerable thought and wide publicity, which have done much good.

Large-Scale Capital Consumption in U.S.A.?

Canadian accountants are avid readers of the excellent *Journal of Accountancy* which is the official publication of the American Institute of Accountants. Its January, 1949, issue contains an arresting article by Ralph Coughenour Jones, of Yale University, entitled "Effects of Inflation on Capital and Profits: the Record of Nine Steel Companies." With interesting arguments, supported by voluminous statistics, the author argues that, due to reduced purchasing power of currency and to certain failures to provide for the high costs of replacing plant and inventories, many large American concerns are reporting profits which in fact they do not earn. He demonstrates elements of "gaps" totalling \$1,082 million between reported profits \$1,638 million, and what he calculates to be real profits of \$556 million, for the seven years 1941 to 1947 inclusive. Mr. Jones contends that because of non-recognition of those elements by conventional accounting, many large American companies really pay interest, dividends, and taxes out of capital. He states that: "The failure of the British people to understand and solve the problem of capital replacement and expansion is unquestionably a factor in their present plight." He adds: "A similar failure could occur in the United States in the period just ahead if the conditions revealed in this study are not considered in framing tax and monetary policies." Whatever views one may have on this profound subject, much can be gained by careful reading of Mr. Jones's thought-provoking article.

In fact, accountants in Canada, the United States and the United Kingdom have very much to gain by studying contributions by their colleagues to foreign professional magazines. It would be good if the British periodicals were to have wider circulation on this side, and if the North American magazines could be more widely read in Great Britain. Such greater interchange of literature would enable us all to appreciate better the extent to which our profession is being affected by far-reaching developments which are constantly taking place on both sides of the Atlantic Ocean.

The Finance Bill

The accountant's first reaction on reading the Finance Bill of 1949 must be one of relief that there are no major innovations to follow the profits tax and Special Contribution provisions of the two previous years. His second may well be one of satisfaction on finding an element of design in this year's Clauses, and rather less of that ill-sorted miscellany which so often makes up the annual legislation. On the one hand, there are the results of the Chancellor's "tidying-up" process in the consolidation of the death duties, the abolition of the ill-begotten duty on bonus share issues, and the preparations for repeal of the ancient land tax. On the other hand, there are more measured steps in the direction, taken in 1945, towards recognition that the difference between capital and revenue expenditure is not absolute, but one of time and degree. If a deduction is not due this year, it should be next year, or sometime, but not never.

CAPITAL ALLOWANCES

(i) Clause 16 (1) provides for the doubling of the initial allowance for expenditure on the provision of machinery or plant which is incurred on or after April 6, 1949. The second sub-clause relates to expenditure on machinery or plant for scientific research purposes. Instead of equal allowances over five years, three-fifths is to be allowed in the first year, and one-tenth in each of the succeeding four years. Two points should be noted. Firstly, the question of dates will again be material, and expenditure will be deemed to have been incurred when the sums in question became payable (Income Tax Act, 1945, Section 64 (2)). Secondly, the equal allowances for five years will continue for capital expenditure on scientific research which does not take the form of machinery or plant. Clause 16 (3) is concerned with transactions between parties under common control which are not actuated by motives of tax benefit, and amends the Finance Act, 1946, Section 34, so as to ensure that one or other of the parties shall have the allowance at the new rate.

(ii) Clause 17 and a Sixth Schedule which extends to twelve pages deal with the method of allowing for wear and tear of machinery and plant; the determination of percentage rates; and legal difficulties which arose when the asset was not fully used for the purposes of the trade, profession or employment. The main points may be tabulated as follows:

(a) If no action is taken by the taxpayer, the wear and tear allowance will continue to be computed on the diminishing balance method. In arriving at the written-down value each year, there must be deducted from the capital expenditure all initial, wear and tear, exceptional depreciation and scientific research allowances for previous years. The additional "tenths" and "fifths" for years prior to 1946-47 will continue to be carried forward independently, pending completion of full writing-off, or until a balancing charge or allowance arises.

(b) The rates will no longer be within the jurisdiction of the particular Commissioners, General or Special, concerned with the assessment and appeal, but are to be fixed by the Commissioners of Inland Revenue, and will be five-fourths of such percentages as are expected to write off 90 per cent. of the expenditure over the anticipated normal working life of plant of the class in question. It is noted that the C.I.R. are not to take into account in fixing the percentages either the initial allowance or the addition of one-quarter to the basic rates, which are presumably related only to the monetary factor. It seems inconsistent to apply the percentage to the cost as diminished by both of these factors. A basic rate already in force for 1948-49 is to continue unless amended by the C.I.R., and is deemed to have been fixed by them under their new powers, even though it is such that more than 90 per cent. is likely to be written-off during the normal working life. The C.I.R. will not, therefore, be bound to amend a rate (if such there be) which might be excessive by this test, but have the power to do so.

(c) The taxpayer may, when claiming wear and tear allowance, elect to adopt the straight-line method, in which case the percentage to be applied each year to the expenditure will be five-fourths of the rate required to write off, on this basis, 90 per cent. thereof over the anticipated normal working life. The powers of the Commissioners of Inland Revenue are as set out in the preceding sub-paragraph. If straight-line percentages are already in operation for 1948-49, they will continue unless altered by the C.I.R., notwithstanding that they may be expected to write off more than 90 per cent. of the expenditure over the normal working life. The taxpayer may treat as separate classes of machinery and plant new and second-hand items, on the one hand, and also second-hand items acquired at varying intervals since their original use. If plant has previously been dealt with on the diminishing balance method, allowance on the straight-line basis is to be computed on the written-down value at the end of the previous year, and the percentage is left to the discretion of the C.I.R. It is interesting to find that an election to adopt the straight-line basis is conditional upon the taxpayer satisfying the C.I.R. that he will maintain and allow inspection of such records as are necessary to show the cumulative allowances for each item, so as to ensure that they do not exceed the expenditure. Perhaps this may finally expose the action that the straight-line method is simple.

(d) Under either method, the taxpayer may elect that the percentage rates be fixed by reference to the probable duration of a source of mineral deposits and to probable residual value, when the plant in question is used in connection with the working of such a source. This could already have been done under the proviso to Section 16 (2) of the Income Tax Act, 1945, and the Clause merely places the provision in its new context.

(e) The Commissioners are given authority for making adjustments to percentages for any year, in either direction, when they are satisfied that the wear and tear has varied from that which was anticipated on the basis of use in the normal manner and to the normal extent.

(f) There are changes in the procedure for applying for increased rates of wear and tear allowance. Application may be made by a taxpayer without trade support, or by a number of taxpayers using plant of the class in question who are not engaged in the same trade. The onus of giving a ruling on the application rests with the Commissioners, and the function of the Board of Referees is made appellate only from such a ruling. Application by a single taxpayer is, however, appealable only at the discretion of the Commissioners. The Board of Referees may fix a different rate on appeal, and matters to which this procedure is appropriate are not to be taken before the General or Special Commissioners.

(g) In determining percentage rates, no account is to be taken of the fact that part of the expenditure on the plant has been borne by some person other than the taxpayer. It appears also that such a contribution need not be deducted before computing the allowance but would be taken into account in limiting total allowances, or on computing a balancing charge or allowance.

(h) Part II of the Sixth Schedule clarifies the provisions of the 1945 Act when plant, such as a car, is not wholly used for the business, profession or employment. The initial and wear and tear allowances are to be restricted proportionately, as followed in practice, and a balancing allowance or charge in such cases is to be such an amount "as may be just and reasonable." If the taxpayer receives a non-taxable payment to cover his wear and tear, no initial and wear and tear allowances are to be made. Written-down values are to be computed on the basis of continuous use for the business, profession or employment.

(i) The new provisions apply from 1949-50, but may be invoked for the two preceding years. If the assessment has become final before April 6, 1949, it would seem that the procedure contemplated is by way of claim for error or mistake. If rates, whether on the diminishing balance or straight-line methods, have been in general use in 1947-48 and 1948-49 those rates are to be deemed to have been fixed by the Commissioners under their new powers, but would appear to be appealable to the Board of Referees.

(iii) Clause 18 extends the annual allowance, in the case of a source of mineral deposits outside the United Kingdom, to cover expenditure on the acquisition of the deposits or of rights in or over them. It would seem that the principle of allowance for depletion is recognised for the first time, and the importance of the matter appears, therefore, to be its prospect, rather than its present limited application. It is likely that the very complexity of Part III of the 1945 Act stifled many applications at the outset, and to superimpose the new provisions on those foundations appears to make the relief still more a test of endurance. One interesting point is that qualifying expenditure will include minimum royalties or dead rents which are paid before the commencement of the trade.

MISCELLANEOUS INCOME TAX CLAUSES

(i) Rule 3 (1) of Cases I and II is to be overruled in so far as it applies to annual interest paid by a person resident in the United Kingdom to a non-resident, without deduction of income tax, when the liability was incurred for the purpose of a trade, and is secured on assets abroad which are owned and used by the taxpayer for the purposes of that business. There are the usual complexities relating to parties under common control.

(ii) Clause 20 embodies the intention of exempting unemployment, sickness and maternity benefits under the National Insurance Act, 1946, and restricting the deduction for contributions referable to those items.

(iii) Clause 21 is another example of a "corrective" applied by the Inland Revenue to an adverse decision in the Courts. The victim on this occasion is the Wesleyan & General Assurance Society, which had designed a policy whereby, in consideration of the payment of a lump sum, an annuity was paid to the assured under deduction of tax in the normal way, and, in addition, an amount was to be payable on his death, to be computed by reference to the period which had elapsed between the date of the policy and the date of death. The Society was authorised to lend, on application, monthly sums not exceeding the amounts which were being added to the policy under the second part of this arrangement. Such loans could not be called in by the Society during the lifetime of the assured and would be satisfied by the maturity of the policy on his death. The House of Lords held (1948, T.R. 67) that the monthly payments by the Society were in fact loans and there was no liability under Rule 21. These arrangements are precisely covered by Clause 21, and the payments are to be treated as assessable on the assured under Case III, or, in the case of a policy entered into abroad, Case V of Schedule D. Two objections, in particular, may be made against this Clause. In the first place, it is retrospective without any saving having been made for contracts already decided on appeal in the taxpayer's favour. A precedent would have been available in the matter of the *Henry Richardson, Ltd.* case regarding directors' remuneration (Finance Act, 1947, Section 63 (3)). Secondly, the Clause adds another to those discretionary powers of the Commissioners which are such a disquieting feature of modern tax legislation. This is directed towards excepting loans on policies which are not held to be annuities in substance.

(iv) Clause 46 and the Tenth Schedule deal with arrangements for special reserve funds in the case of underwriters at Lloyd's or other approved association. If the arrangements are certified by the Board of Trade to be in the public interest, and comply with the requirements of the Schedule, payments into and out of such funds are to be treated as decreasing or increasing total income for surtax purposes, in consideration for the withdrawal of the exemption from profits tax normally afforded to businesses carried on by individuals.

(v) Clause 45 establishes the liability to Special Contribution of Northern Ireland residents.

(vi) Clause 47 obviates formal determination of an appeal by the General Commissioners, Special Commissioners, or Board of Referees, as the case may be, when

an agreement is achieved between the inspector and the taxpayer after notice of appeal has been lodged. A useful change is that withdrawal of an appeal is possible, unless the inspector gives notice, within twenty-one days of the taxpayer's notification to that effect, that he is unwilling to treat the appeal as withdrawn.

DEATH DUTIES

It is hardly possible to review fully Parts III and V of the Bill. Legacy and succession duties are not to be chargeable when the legacy is derived on the death of a person which occurs after the commencement of the Act, or on a succession conferred thereafter. Where the duties have been paid in respect of successive interests, on the basis of the capital value of the settled funds, credit is to be given, on the first subsequent occasion on which estate duty becomes chargeable on the passing of the property on the death of a person not competent to dispose

of it, at the rate of legacy or succession duty paid. Exemption from estate duty is extended to funds given to the National Trust as a source of income for the upkeep of lands already within the exemption of Section 31 of the Finance Act, 1937. There are extensions of relief from death duties on land which is the subject of a compulsory acquisition, to conform with the position following the Town and Country Planning Act, 1947. Gifts *inter vivos*, not exceeding £500 in the case of any donee, are to be exempt.

LAND TAX

Property is to be exonerated where the annual charge would be less than ten shillings for 1949-50, and there is to be compulsory redemption on a change of ownership occurring after March 31, 1950. Where such a change arises on the death of a person whose estate is less than £2,000, the property is to be exonerated.

Taxation Notes

1949-50 Returns

AT THIS SEASON, WHEN SO MANY CLIENTS ARE hastily divesting themselves of their income tax return forms, few of us can have altogether withstood the temptation towards showmanship which is exemplified by the reckless abandon with which, in their presence, we commit the instructions to the flames. Having regard particularly to the non-taxable benefits in kind which are now available through the optical section of the National Health Service, a brief study of those notes may well be worth while. The following points arise:

(a) In accordance with the comparatively recent change in practice, marriage allowance is to be included with pay by members of H.M. Forces.

(b) It might have been overlooked that the allowance for additional travelling expenses (maximum £10) is still available where either the place of residence or place of employment have been changed because of the war.

(c) Although practice varies, it would seem that one figure may be returned to cover interest on all bank accounts, but that the names of all building societies from which interest is received must be shown.

(d) Benefits under the National Insurance Act, 1946, which are to be returned comprise Retirement Pensions, Sick and Accident Benefit, Maternity or Attendance Allowance, but not Maternity Grant or Death Benefits. It seems that benefits received in 1948-49 should be returned, and will presumably be assessed for that year under Schedule "E," although it is proposed to exclude them for the future.

(e) Following last year's Act, miscellaneous income from the ownership of land should be returned separately, unless the recipient is carrying on a trade thereon, in which case such income should be brought to credit in the accounts. Car park, camping and caravan fees are specifically mentioned in the notes enclosed with the return forms.

Farm Book-keeping

A revised edition has been published by H.M. Stationery Office at the price of 6d. of the booklet *Farm Book-keeping*, issued under the auspices of the Ministry of Agriculture and Fisheries. The first edition appeared in 1943, but the present revision is occasioned by the fact that large numbers of farmers previously assessed under Schedule B will now have to prepare accounts. It is for their special benefit that the booklet is presumably designed, as it is stated that it is not primarily intended for the farmer who keeps a full set of books or who is advised by a professional accountant.

It is written in a homely manner and does its best to deal in simple terms with a complicated subject. Whether those to whom it is addressed will understand it is another matter. Finance Acts are no respecters of persons, and the farmers who are now drawn into the Schedule D net may be young and intelligent, or—just as likely—elderly and conservative in mind, and the question is whether such as they will ever be able to assimilate teaching from a book. The first class, if ambitious, will probably desire to master the problem for its own sake.

This note of caution does not imply any criticism of the booklet, which is well designed and set out, but we fear that in the nature of things many of those who need it most will understand it least. Practising accountants generally find that even large

farmers have only a rudimentary knowledge of book-keeping.

We are surprised that the Inland Revenue continues to issue and lay stress on Form 79D, which does not include a balance-sheet. Inspectors of Taxes, who address regular questions to accountants on the transactions in the capital account, not least on the amount of personal drawings or the cash available for living expenses would probably raise considerable outcry if all farm accounts were sent in on this form. We are at a loss to understand why it is still retained, and even recommended as the basis in a booklet of this nature. The booklet starts well and instructs the learner how to record all receipts and payments in such a manner as to give a balanced account, but does not follow this through, as it proceeds to the use of the form 79D. We notice, for instance, on page 8 para. 4, that the difference between the total receipts and total payments if they have been entered correctly "will be the unrecorded amounts . . . used for personal and housekeeping purposes and should be put down as estimated private payments." This seems to be in line with the schoolboy's account which contained numerous items S.P.G. When his father, who was a clergyman, commended him on his interest in missions, he had to confess that the entry meant "Sundries, probably grub."

It is only fair to add the paragraph concludes "with the unexceptionable sentiment (with which no doubt Inspectors of Taxes will agree) that "Ideally you should record all your receipts and payments, whether personal or business."

Valuation of stock is dealt with on page 5 by assuming that the basis should be cost or market value whichever is the lower; this point is amplified by the statement that if a valuation of all the animals at cost gives

a smaller total than a valuation of all at market value, cost should be used, and vice versa. This is, of course, the Revenue's contention on global valuations, which in many cases is resisted by accountants. It is interesting to note, however, that in Chapter VI, on page 14, it is stated that the booklet is written on the assumption that working horses will be treated as stock, being valued at market price or cost along with the rest of the livestock. Many Inspectors have resisted any writing down of horses until they die or are sold.

We must confess that if the booklet is, as stated, intended for those who do not keep a full set of books or have an accountant advising them, Chapter V on the Herd Basis and the appendices on Wear and Tear (*sic*) and Initial Allowances would seem to add an unnecessary complication. A farmer who does not keep proper books and operates the herd basis seems to be a contradiction in terms.

The booklet is interesting and useful, and the few who will take the trouble to study and work from it will find it will well repay them for the effort.

Special Contribution—Working Directors: Husband and Wife

With reference to the paragraph under "Points in Practice" in the March issue of ACCOUNTANCY, page 62, we have received a letter from a reader who has just settled a case in which relief under the Tenth Schedule has been given for both husband and wife who were claimed to be working directors of a private company; both had previously been established as such in connection with excess profits tax. The Revenue admitted the claim without any query, and the relief was allowed as follows:

	Husband	Wife
Remuneration ..	£1,218	£656
Dividends ..	470	1,820
Amount of relief:		
Husband ..	470	
Wife ..	1,344	
	£1,814	

We are indebted to our correspondent for this information. Although the income of a married woman living with her husband is deemed to be his for income-tax purposes (and hence for Special Contribution), it is apparently possible to treat each party separately when claiming relief under the Tenth Schedule.

Schedule A Assessments

The last general revaluation of property for the purpose of fixing Schedule A assessments was made in 1935-36 and took effect in 1936-37. The quinquennial valuations that would have been made in 1940-41 and 1945-46 were dispensed with because of the war, but the provisions of the

Finance Act, 1940, for assessing "excess rents" prevented any undue loss of revenue.

The assessments raised for 1936-37 were based on the annual values of properties in the "preparatory year" 1935-36. If in that year the property was let at a rack rent fixed within the preceding seven years, the gross annual value (and thence, by deduction of the statutory allowance for repairs, the net annual value or Schedule A assessment) would have been fixed accordingly. In many cases, however, the rent receivable was not a rack rent, because either the tenant had agreed to bear the cost of repairs, in whole or in part, or the landlord paid the rates out of an "inclusive" rent. Even so a simple calculation would have enabled the equivalent rack rent to be arrived at and the annual values would have been fixed accordingly. In general, therefore, it may be said that, where a property was let at the time of assessment, that assessment was based on (though not, of course, equal to) the rent receivable.

Owner-occupied properties, on the other hand, are nearly always assessed by reference to the gross annual values adopted for rating purposes, notwithstanding that these are often much below the true rack rent at which the property is "worth to be let by the year." As the calculation of the repairs allowance differs, it is usually found, in such cases, that the Schedule A assessment slightly exceeds the rateable value.

If a house which was let at the time of assessment is subsequently sold to an owner-occupier, it may well be found that the Schedule A assessment exceeds the rateable value by a substantial amount. In these circumstances the new owner may apply to the Inspector of Taxes for the district in which the house is situated to have the assessment reduced to the level of the existing assessments on similar owner-occupied properties in the same district. The time limit for such an application is one year after the end of the year of assessment concerned. Appeals can therefore be lodged now for 1948-49 but not for 1947-48 or any earlier year.

Weekly Rents

The concession by which the net annual values of properties let to weekly tenants can be calculated on the basis of a year of 50 weeks is now well established. In such cases, however, the rent receivable is usually inclusive of rates and it is not permissible to charge the rates for a full year against the rents for 50 weeks. The concession is therefore applied by making the appropriate deduction in the computation of net annual value.

Example

A house is let at a (controlled) inclusive rent of 30s. per week. The general and water rates for 1948-49 amounted to £20 and the Schedule A assessment is £30.

The net annual value is calculated as follows:

	£	s.	d.
Rent receivable ..	78	0	0
Less rates and water ..	20	0	0
	58	0	0
Less 1/26th for weekly rent ..	2	5	0
	55	15	0
Less Repairs allowance ..	11	5	0
Net annual value ..	44	10	0
Schedule A assessment ..	30	0	0
Excess rent ..	£14	10	0

The excess rent will be assessed on the owner under Schedule D, Case VI. It will be observed that the calculations are "rounded off" to the nearest 5s., following the usual practice in this respect.

If, in the foregoing example, the Schedule A assessment had exceeded £44 10s., the owner would be entitled to apply, not later than April 5, 1950, to have it reduced accordingly.

Repairs

Any calculation of net annual value normally involves the deduction of an allowance for repairs, calculated on the well-known statutory scale, by reference to the gross annual value. When rents receivable from several different tenants are involved in one calculation, consideration must be given to the unit or units of assessment involved. Where separate houses are concerned, each will be the subject of an assessment under Schedule A and in the case of small or medium sized residential properties, the higher rates of repairs allowance will usually be attracted.

Example

X owns a terrace of six small houses which are let at (the same) controlled weekly rents which are collected by X's estate agents and remitted to him quarterly. The agents' accounts for the four quarters ended March 31, 1948, can be summarised as follows:

	£	s.	d.
Rents collected ..	311	3	10
Less. Rates and water ..	114	19	4
Repairs, Insurance and Agents' Commission ..	81	6	2
Income Tax, Sch. A £126 at 9s. ..	56	14	0
	252	19	6
Balance remitted to owner ..	£58	4	4

The rents collected in the June, 1947,

quarter included £1 12s. 11d. arrears from the preceding quarter; there were no arrears at March 31, 1948.

On these figures a small excess rent liability arises which can be calculated in total as follows:

	£	s.	d.
Rents receivable (£311 3s. 10d.— £1 12s. 11d.)	309	10	11
Less Rates and water	114	19	4
(say)	194	10	0
Less 1/26th for weekly rents	7	10	0
	187	0	0
Less Repairs allowance (1/4th as the gross annual value of each house is less than £40)	46	15	0
Net annual value	140	5	0
Schedule A assessment	126	0	0
Excess	£14	5	0

In the foregoing example the statutory allowance for repairs, although at the highest rate, is substantially less than the actual expenditure. So far as income tax (and, where applicable, sur-tax) are concerned, relief for the excess repairs can be obtained only on a maintenance claim. For 1947-48 this would be based on the average expenditure during the preceding five years ended April 5 (or March 31), 1947. As most of those years were war years it is unlikely that the average will exceed £46 15s. If liability to the Special Contribution is involved, however, the actual expenditure for 1947-48 can be taken into account (Section 62 of the Finance Act, 1948). The figures must be agreed with the local Inspector of Taxes before the Special Commissioners can give effect to this claim. The income tax (and sur-tax) liabilities are not affected by it.

It will be observed that agents' commission on the rents collected is a management expense which falls into the same category as repairs (and insurance); it cannot be deducted from the rents receivable in the calculation of the gross annual value. If a maintenance claim arises the commission will, of course, be included in the admissible expenditure. This applies to commission on letting and other fees, including accountancy charges relating to the making of such claims.

Tenements

Where several rents are receivable in respect of one property (for example, an old house let out in separate flats or "tenements") there is only one unit of assessment and the repairs allowance will normally be at the composite rate (that is, £20 plus one-sixth of the excess over £100). If part of the

property is occupied by the owner, the net annual value of that part must be included in his statutory income; the correct calculation of the repairs allowance, however, demands that this benefit should, in the first place, be brought in "gross." Further, as the amount brought in is the equivalent of a rack rent, which presupposes that the tenant pays the rates, the deduction for rates payable by the owner does not include the rates applicable to his part of the premises.

Example

Y has converted his house into four flats of which three are let at inclusive rentals of £100 each and the fourth is occupied by Y. The gross rating value of the whole building is £200 and it is agreed that the four flats are of equal value. The rates and water rate paid for 1948-49 amounted to £160 and the cost of lighting and cleaning the staircase is agreed at £8 for the year. No other services are rendered to the tenants.

The net annual value is calculated as follows:

	£
Rents receivable	300
Value of owner-occupied flat, 1/4 of £200	50
	350
Less Rates and water .. £160	
Lighting and cleaning .. 8	
	£168
Proportion applicable to flats let—3/4 of £168	126
	224
Repairs allowance (£20 + £124/6)	41
Net annual value	£183

If this exceeds the Schedule A assessment, the difference will be assessed as excess rent. If the difference is the other way the tax payable under Schedule A will be reduced accordingly.

Special Contribution

It is anomalous that he who made a loss in 1947-48 is faced with an unexpected profit! Take the following case:

Investment Income	£20,000
Business Loss (no assessment as there was a loss in the previous year)	£20,000

The loss saves sur-tax of £6,962 10s., and Special Contribution of £9,125, in addition to the income tax on £20,000, less allowances, which to a married man with two children amounts to £8,726 5s. In other words, his loss of £20,000 has saved him tax amounting to £24,813 15s. It is true that

in such a case, he has no income left, but had it not been for the loss he would have had to find £4,813 15s. out of capital.

In the above illustration, if the investment income were more, and the loss increased to the same extent, each £1 loss would save 19s. 6d. income tax and sur-tax and 10s. contribution, that is, it would save dipping into capital to the extent of 9s. 6d. for each £1 of income and loss.

Other less extreme examples can easily be worked out. A repetition of the contribution might, therefore, be a serious deterrent to business efficiency in more ways than one.

In a small way, the following, based on an actual case that has arisen, exemplifies the position:

Investment Income	£4,500
Schedule D assessment nil (loss in previous year)	
Deduct Loss of 1947-48	2,200
Total Income	£2,300

Special Contribution that would normally have been payable:

£250 —	—
250 at 2s.	25
500 4s.	100
1,000 6s.	300
2,500 8s.	1,000
£4,500	£1,425

But this is limited to £2,300—£2,000=£300

The taxpayer has, therefore, had relief in respect of his loss as follows:

Income Tax, £2,200 at 9s.	£990
Sur-tax on top slice of income:	
£ 500 at 4s. 6d. 112 10 0	
1,000 at 3s. 6d. 175 0 0	
500 at 2s. 6d. 62 10 0	
200 at 2s.	20 0 0
	370

Special Contribution, £1,425—£300 1,125

Total Relief £2,485

While such cases may be few, they can hardly reflect what was in the Chancellor's mind when he imposed the Contribution!

Taxation of Payments for the User of Patents

We regret that two misprints occurred in the article on page 96 of our April issue. The last sentence of the third paragraph should read "In so far as the payment was not made out of a taxed fund. . ."

In the penultimate paragraph, page 97, the second line should read: "where the buyer is a body of persons over whom the seller has control. . ."

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT., Barrister-at-Law

Schedule D, Case V—Dividend from South African company—Dividend paid out of proceeds of sale of capital assets—Whether income for income-tax purposes—Income Tax Act, 1918, Case V, Rule 1; Sch. D, Miscellaneous Rules, Rule 7; General Rules, No. 20.

C.I.R. v. Reid's Trustees (House of Lords, January 20, 1949, T.R. 45) was noted in our issue of January, 1948. As the result of the unanimous decision of the House of Lords, reversing that of the Court of Session, the Revenue has achieved a most important victory. A new principle has been established which cannot fail to have important effects upon the financial policy of many business concerns. It will also have to be borne in mind in many other financial transactions.

The case arose in connection with a Scottish trust. The trustees held shares in a South African company which held certain properties in Johannesburg, which it had sold in 1943 at a profit of £17,451. It was not a property-dealing company and from the company's standpoint the amount was not a taxable profit. As the properties still held by the company were in the directors' opinion of greater value than the balance of the company's property account in its balance-sheet, the company distributed to its shareholders as a dividend separate from its ordinary trading dividend the sum of £2 per share. The trustees owning 3,433 shares received £6,866 and this sum was distributed as to three quarters amongst the three daughters of the testator who were tenants for life and as to one quarter was dealt with by the trustees in pursuance of a discretionary trust in favour of the testator's son. The point at issue was whether the £6,866, admittedly a non-taxable capital profit so far as the South African company was concerned, was distributed as income and was taxable in the hands of the trustees under Case V of Schedule D.

The Revenue claimed boldly that the shares in the company were possessions out of the United Kingdom and that any distribution by a company must be a distribution by way of income unless it was by way of an authorised reduction of capital. The Special Commissioners had found in favour of the trustees, holding that the dividend in question was of the same capital nature as the source from which it was paid; and the Court of Session had affirmed their decision, the Lord President in delivering the judgment of the Court declaring, "This sum is not the income of anyone, and never was."

The House of Lords was unanimous, and the several judgments were to the same general effect. The following passage from Lord Reid's judgment sums up the conclusions:

The contention for the Inland Revenue has the merit of extreme simplicity, if that be a merit in questions of income tax. It is that the dividend cannot be capital, because the respondents' foreign possessions, the shares, remain intact, and, therefore, the dividend must be income. It is admitted that, if the money had been paid by way of reduction of the share capital, that would not have been income; the shares would not have remained the same. It is also admitted that if the surplus profits had been used to create bonus shares, or even, it may be, bonus debentures, there would have been no receipt of income; new capital assets would have been created. But it is said that, so long as the capital asset abroad remains the same, anything received by the shareholder in this country must be income subject to assessment under Case V of Schedule D. . . . There are many ways in which a company can deal with its profits. If it adopts certain methods, the result is the creation of new capital assets. If it adopts other methods, the result is the receipt of income by its shareholders. In either case it is immaterial whether the profits were trading profits or capital profits.

Taxation at the source has no application to the case of a foreign company operating abroad, but governs the position in the case of a British company taxable in this country in respect of its profits. As a consequence, the question whether a dividend constitutes income depends in the case of a British company upon whether the profits out of which the dividend is paid are themselves taxable. Liability is determined at source and not at destination with results which have, perhaps, their most striking illustration in the case of *Hudson Bay Company v. Stevens* (1909, 5 T.C. 424). In this connection, it will not escape notice that if that company were to transfer "control" to Canada, then, under the decision in the present case, dividends in respect of land sales would apparently become taxable under Case V.

The position, with regard to distributions of capital profits by way of dividends, bonus shares, bonus debentures, etc., as between tenant for life and remainderman is, as the result of Court decisions, governed in this country by the method which is adopted by the company making the distribution. In general, in the absence of special provisions in the trust deed, what is distributed as income accrues to the tenant for life. In the majority of the States of the U.S.A. a different rule holds; and

regard is had to the position at the date when a trust comes into existence, accrued profits at that date being regarded as part of the capital of the trust. The Pennsylvania Rule, as it is called, whilst theoretically more equitable than ours, apparently gives considerably more trouble in application. In the present case, the trustees were in the position of having to claim as being a capital receipt money which had to be distributed to the tenants for life as income.

Income tax—Purchase of business including book debts—Specific sum stated as price of book debts—Surplus on realisation—Whether surplus a trading profit.

Harry Hall, Ltd. v. C.I.R. (K.B.D., January 21, 1949, T.R. 57) was a case where Croom-Johnson, J., confessed that "if the matter had been left to my own unassisted judgment, I should have found it very difficult to determine on which side of the line this particular transaction lay." The facts were that the appellant company carrying on a tailor's business had purchased from the receiver of another company the goodwill and other assets of the latter's business of bespoke tailors and outfitters. Included in what was sold were book debts (including uncompleted orders) valued at £4,799. The appellant company proceeded to collect the debts; and there was a realised surplus over the said valuation. This, it claimed, was a capital profit; but, on appeal against the surplus being included as a trading receipt in computing its profits, the Special Commissioners had decided that the amount in question had been properly included. Croom-Johnson, J., on a review of the cases, held that it was a question of fact upon which he could not say that there was no evidence to support the finding of the Special Commissioners.

Unfortunately, the whole of the judgment is confined to showing that the issue was entirely one of fact. It contains no indication whatever of the evidence upon which the Special Commissioners had based their finding. The case, when printed, will, of course, reveal this; and it would seem to be the only element in the case of legal interest.

Schedule E—Electrical engineer becoming temporary civil servant—Appointment entailing move to more expensive district—Whether additional cost of living admissible as expenses—Diminution of earnings—Objection to assessment on actual income of year of assessment—Schedule E, Rule 9 Finance (No. 2) Act, 1939, Section 11.

In *Collis v. Hore* (K.B.D., January 25, 1949, T.R. 67) the appellant was obviously one of those who, suffering from a sense of injustice, refuse to be comforted or to recognise that the law is not what they think it should be. An electrical engineer

living in Brentwood, Essex, he had during the war volunteered to do some work of national importance and had entered the Admiralty service as temporary assistant electrical engineer. This meant his moving to Bath, where he bought a house. Permanent Admiralty officials transferred to Bath received a billeting allowance of a guinea per week. Appellant did not get that; but he claimed that his living was more expensive at Bath than at Brentwood, and he claimed the additional cost as a deduction in computing his Schedule E liability. He further claimed that as his income had diminished he was entitled to relief and should not be assessed upon his actual remuneration for each year of his service with the Admiralty. The General Commissioners had refused both claims. The second one was clearly misconceived and, as regards both, they found that the appellant had not satisfied them by his evidence.

Croom-Johnson, J., in upholding the Commissioners' decisions pointed out that even had appellant proved additional cost of living at Bath as compared with Brentwood that expense would not come within the ambit of Rule 9. It is easy to see that the appellant failed to realise the difference between the position of a man taking up a Government job for the first time and that of a permanent official being transferred from one town to another and having to submit as a condition of his existing employment.

Schedule E—Under-manager of mine—House provided by employer—Compulsory residence—Whether net annual value of house includible in Schedule E assessment—Income Tax Act, 1918, Schedule A, No. VII, Rules 1, 3; Schedule E, Rule 1.

Gray v. Holmes (K.B.D., January 26, 1949, T.R. 71) was a case of familiar type in which the Revenue had sought to treat as an emolument of the employment the value of a house provided rent free. Appellant was a colliery under-manager who, when engaged, was told that there was a house provided in which he would have to live, the reason being that he had to be available at all times and had what was practically a twenty-four-hours' job. The Schedule A tax and the rates were paid by the company. As Croom-Johnson, J., said in substance in the course of his judgment, if a man has to live in a certain house not merely by the whim of the employers but because it is necessary for the performance of the duties of his contract of service then he is not in beneficial occupation and the annual value of the house is not his income. The Special Commissioners, whilst accepting the appellants' evidence, had decided in favour of the Revenue, holding that the appellant was only required to live in the

house in the sense that he had to so long as he desired the benefit of free residence. In reversing this decision, Croom-Johnson, J., said:

Had the Special Commissioners any right in law to draw that inference? I have said that I can see no reflection of it in the evidence which was before them; but I think it is worth while pointing out that tribunals must not draw inferences except upon evidence which makes it reasonable to draw those inferences; and one thing is tolerably plain, that no authority . . . can draw an inference which is contrary to the evidence in the case which that tribunal accepts.

Putting the matter in another way, if A declares that he did a certain thing for a certain reason and the tribunal accepts his declaration as true it is, nevertheless, entitled to draw a reasonable inference from the whole of the facts of the case including that declaration; but, having accepted its declaration, it cannot draw an inference which is, of necessity, in contradiction of that evidence.

Income tax—Charitable exemption—Trust for religious purposes—Promotion and aiding of the work of the Roman Catholic Church in the district where trust property situate—Property not to be used for purposes inimical to welfare or principles of Roman Catholic Church—Capital or income to be applied for purposes in connection with the promotion and aiding of the work of the Roman Catholic Church—Whether trust entitled to relief as a charity—Income Tax Act, 1918, Section 37.

Ellis v. C.I.R. (K.B.D., January 26, 1949, T.R. 75) depended upon whether the terms of a trust deed made the trust one for charitable purposes only. The Special Commissioners had refused the trustees' claim and Croom-Johnson, J., upheld them, holding that there was nothing to show that the trustees could not lawfully without breach of trust devote the trust funds to objects which were not charitable. The facts set out in the heading indicate why he came to this conclusion.

Income Tax Claims—Time Limits

In the House of Commons the Chancellor of the Exchequer was asked whether he was aware that the withdrawal, as from April 6, 1948, of the concession contained in Command No. 6559 of 1944, under which the Inland Revenue authorities granted in appropriate cases an extension of the twelve months' time limits laid down in the Income Tax Acts for making certain claims, had caused serious difficulty to many accountants in view of pressure of work and shortage of staff; and whether he would renew this concession for a further period.

Sir Stafford Cripps replied that he was prepared to authorise an extension of this concession as regards the time limits in question for claims made before April 6, 1950.

•[Command No. 6559 of 1944, Section I

(Income Tax), paragraph 15 (Time Limits) reads as follows: "Notice of claims to various Income Tax reliefs has, under the law, to be given within a prescribed period, usually twelve months from the end of the year of assessment to which the claim relates. Where notice is not given within the prescribed period and the delay is due to war conditions, an extension of the time limit is given."]

The Universities Scheme

We reported in our May issue (page 111) a meeting of the Joint Standing Committee on the universities scheme for accountancy education, held at the The Queen's College, Oxford. In the unavoidable absence of Lord Eustace Percy, Chairman of the Committee, Mr. W. L. Barrows took the chair.

It was reported that the approximate number of students enrolled under the scheme was 289 (not 120 as stated in last month's issue of ACCOUNTANCY), in twelve universities and university colleges. They were distributed as follows: Birmingham, 41; Sheffield, 38; London, 36; Bristol, 31; Durham, 29; Wales, 28; Leeds, 23; Manchester, 23; Liverpool, 20; Southampton, 9; Nottingham, 7; Hull, 4. The position in regard to new entrants was especially difficult in London but at a number of other universities no applications had been refused. While the numbers taking the courses were generally satisfactory, there were limiting factors—such as the general influx of new students into universities, the high standard of admission demanded under the scheme, financial considerations and lack of information about the scheme—which prevented a rapid increase.

The financial problem was partly a short-term one, concerning ex-Service candidates, and partly a long-term one, concerning other university graduates entering the accountancy profession. On the long-term problem, many accountancy firms could not pay large initial salaries to graduates. On the other hand, the profession was in competition with other occupations offering large commencing salaries. Articles without premium were customarily given, but there was some doubt whether the paying of salaries which would be really attractive to graduates was practicable. Members of the profession gave instances where the payment of a fairly large salary had been fully justified by results: in such cases, the firm took a risk in making advance payments for future qualities, while the graduate made a sacrifice in accepting a somewhat lower salary than the competitive one. It was thought that the problem would probably be solved as professional firms found benefit from the employment of university graduates having the background of a

liberal education and the capacity for development.

In regard to publicity for the scheme, it was thought that the main aims should be to inform headmasters and headmistresses about it; to attract to the profession students already at universities who were undecided upon a career; and to draw

attention to the advantages of the accountancy profession, particularly through University Appointment Boards and the Local Joint Committees for the scheme.

The appointment of more full-time lecturers in accountancy was reported, but it was said that it was often difficult to find qualified teachers. When more students

had graduated under the scheme, the position should improve. There were seven full-time and twenty-two part-time members of the teaching staffs. Special lectures were arranged from time to time.

There was also considerable discussion on how the work of the Local Joint Committees could be made more effective.

FINANCE

The Month in the City

A Weak Undertone

The rather tentative but general rally reported a month ago continued well into May, but has now been reversed in most markets, with a partial exception for irredeemable Government securities. Here the previous rise has now been reversed: the yield on Old Consols is unchanged at 3.08 per cent. The reason most commonly advanced for the weakness of markets in general is the disclosure of smaller export figures for April. This was probably the occasion, and may well have been the cause, of the modest recession. Certainly there is growing anxiety about the outlook for British exports. The export setback of April may possibly be recovered, but the prospects, especially after the turn of the year, are not rosy. It is a curious fact that this news coincided almost exactly with the lifting of the Berlin blockade. Some weeks before, that event would have caused a sharp rise. Coming when it did, it produced hardly a ripple. So far as industrial equities are concerned the *Financial Times* index now stands at 112.8 against 114.9 last month, having touched 116.0 in the interim. It is difficult to say what the reaction of investors in general will be to any further developments, but the market view is that the undertone is very weak and that should anything happen to start a fall it will not be halted at the level of between 112 and 113 as with the last passing trough.

Good Company Reports

Meanwhile, many company reports now appearing make excellent reading, but it is to be remarked that the figures of *The Economist* show a decline in earnings on a "net worth" basis from 5.4 to 4.6 per cent. for companies reporting in the first quarter of this year. For the previous

quarter there was no change in this index. There is also a considerable flow of new issues, mostly by companies with quite outstanding records, although in the case of Calcutta Electric the political risk has fixed the terms so as to offer a yield of 9.7 per cent. subject to income tax at the full standard rate.

Gas Stock Issue

The gilt-edged market has been subjected to a fresh series of influences associated with the issue of British Gas stock on May 1. For months past investors had been hoping that this issue would give them a chance to get a 3 per cent. stock at a small discount. Shortly before the issue the market changed its views on the matter but when the life of the stock was seen to be 1990-95 it seemed that nothing much over par ought to be paid for the stock. Actually it quickly went to 1½ premium or better—mainly because no stock was available. Since then it has been just under ½ point premium and is now rather over that figure. The fall was due in part to considerable selling but perhaps more to the placing of £40 million of the stock with the National Debt Commissioners at 100½ when the market price was well above that level. The N.D.C. stock is not likely to come on the market, but the price seemed a deliberate indication of official views. Further, the amount offered was a healthy reminder that, even if the central government itself is not to be a net borrower this year, the nationalised industries will call for a substantial part of the money which is to be provided by the Budget for the finance of capital creation. The result has been a fall in the index for gilt-edged securities from 114.00 to 113.55, compared with the fall in the index for fixed-interest securities in general from 133.87 to 133.74.

I.C.I. Accounts

The most important set of accounts published in recent weeks is of the Imperial Chemicals group. Gross proceeds of trading and income from other sources rose by some 18.9 per cent. to £167 million and trading profit by 28.2 per cent. to £29.4 million. The volume of output is stated to be double that of pre-war. The net profit after tax is also doubled—but in depreciated pounds, which for many purposes are not worth as much as 10s. was in 1938. It is hardly necessary to say that the bulk of the earnings, and probably a very large part of the profit, was drawn from established lines, but research is going on in many fields and continues to yield results which will in due course have a very large effect on the group's position. The issue of ordinary capital at a premium added somewhat over £19.9 million to resources during the year, while other reserves proper were increased by £3.8 million. This is in addition to provisions of £6.1 million for depreciation and obsolescence. Even so the addition to really liquid assets, cash and gilt-edged, including tax reserve certificates, was only £4.8 million. Fixed capital outlays during the year rose from £8 to £14 million and commitments at the balance-sheet dates were £22 million for the group. This is likely to cover only a small part of the total capital expenditure planned, and despite the very large reserves and provisions it seems that further demands on the public can hardly be avoided as the programme progresses. There can be very little doubt that the outlay is justified in existing circumstances, for the value of exports rose by some £9.7 million on the year to £37.5 million. Direct exports amounted to 30 per cent. of sales to customers and by volume were 58 per cent. above the 1938 level. It appears that the gross amount earned on the increased ordinary capital was 31.3 per cent. against 24.2 on the smaller sum in 1947, while the net earnings on the "net worth" basis improved from 4.65 to 7.17 per cent., despite the fact that the new capital was not fully invested.

Points from Published Accounts

A Complicated Earnings Figure

Before the Companies Act, 1948, the report and accounts of Bass, Ratcliff & Gretton gave a minimum of information. This year the company has made handsome amends and the report unbends to the extent of discussing trading conditions. The accounts of all the subsidiary companies have been made up to the same accounting date as the holding company; in some instances this involved a change in the accounting date of the subsidiary companies, with the result that the consolidated profit and loss account covers varying periods in respect of such subsidiaries. Comparative figures are therefore omitted. The report states that the earnings of the group for the year did not differ materially from the profit shown in the consolidated profit and loss account, but it would have been interesting if shareholders had been told how they compared with earnings of the previous year.

In the holding company's profit and loss account a balance is struck after deducting income tax and, separately shown, the additional profits tax imposed after the completion of the previous year's accounts by the Finance (No. 2) Act, 1947. To this balance is added profits and credits of an exceptional nature (once again the burden of profits tax and income tax on these is shown separately). To the balance brought forward from the previous year is added net dividends from subsidiary companies in respect of "period prior to September 30, 1947." All this will help to perplex the proprietors of the company, who cannot find a straightforward answer to the question: "Our dividends require £626,910—what is the true earnings cover?"

Re-Valuation Before Nationalisation?

There are four schedules to the balance-sheet. The first is a conventional tabulation of the fixed assets and the depreciation thereon, though shareholders do not learn a great deal as these are taken at the net book values at the previous year-end less sales. *The Statist* has pertinently suggested that the brewing industry should consider the question of re-valuing fixed assets in view of the possibility of nationalisation on the basis of market quotations. The second schedule tabulates directors' emoluments, while the third, provisions including deferred repairs, shows the subsidiary companies' E.P.T. suspense, the net charges to them during the year and the deferred repairs provision. The fourth schedule shows the apportionment of the year's depreciation provision: it also contains

notes, of which two are that replacements and additions to furniture, fixtures and fittings and minor alterations to property are charged directly to revenue, and that replacements of casks have been charged to the provisions included in the third schedule. There are also tables relating to the reserves, and these bring to light property depreciation and repairs reserves formerly retained as internal reserves of £912,120, and reserves set up in previous years in respect of contingencies, trade debts and loans, investments, advertising and stocks of £1,439,522. In the result these two reserves are swollen by £2,351,642 to £3,344,381!

Is this Austerity Really Necessary?

It is easy to reconcile the activity of Alders (Tamworth) as makers of glazed and other commercial types of papers with the latest report, but the form of presentation stretches paper economy to an extreme. Since the company no doubt produces the raw material on which its report is printed, a more generous layout would have been an improvement. In the profit and loss and appropriation accounts there is no room for sub-totalling of any of the items, and each side is just a vertical heap of figures in pallid type. This inspires the thought that the company's publicity department might be called in to advise on lay-out and choice of type faces.

Misguided Effort

There have been many changes in the make-up of company accounts in the past decade, some for the better and some for the worse. Once a year directors are called upon to tell their shareholders some simple facts and figures, but in many instances since the Companies Act, 1948, came into force there has been a struggle to make the telling as complex as possible, in particular where it is necessary to present consolidated accounts. The greatest efforts have been made to escape from the traditional balance-sheet form, though it is extremely difficult to find the reason. A new "low" in originality is struck by Hadfields accounts which juxtapose assets and liabilities in both parent and consolidated balance sheets. On the right-hand side there are four sub-totals in the following order: current liabilities, share capital, capital reserves and revenue reserves and surplus. On the left-hand side, current assets and fixed assets are sub-totalled in that order. Complete topsy-turvydom was only avoided by the placing of the totals and footnotes in the conventional position at the

bottom of the page. Paradoxically, the profit and loss accounts are models of orthodoxy.

An Incomplete Report

Associated Commercial Vehicles adopts a balance-sheet form which is becoming increasingly popular, though its only merits are that it shows net liquid assets and total net assets at a glance. On the right-hand side, fixed assets are shown at cost or valuation, with depreciation and written-down values set against the individual items. Current assets are totalled and so, underneath, are current liabilities, the surplus being added to the fixed assets. Minority interests are then deducted and the picture is rounded off by adding goodwill. There are seven footnotes, and two of them indicate the board's desire to keep shareholders fully informed. The first of these states that the debtors, bills and advance payments item of £2,459,325 includes a total amount of £603,544, of which £201,182 is due for payment on January 1, 1950 and the balance at later dates. The second footnote says that it is the intention of the directors to redeem 250,000 5½ per cent. redeemable Preference shares, held by outside shareholders of a subsidiary, as soon as the accumulated reserves of the subsidiary permit. The consolidated balance-sheet shows bank indebtedness of £326,406, but the report makes no mention of the known fact that before Christmas provisional steps were being taken to issue privately £1,500,000 of 3½ per cent. unsecured loan stock at 98. Neither does the report discuss trading conditions, and there is no apology for the omission of comparative figures. This omission no doubt results from the co-ordination of audit dates and, in any case, comparison would be vitiated by the purchase of the equity capital of two important commercial vehicle manufacturing firms during the financial period. But that is no reason why shareholders should be left to infer this from a footnote to the consolidated profit and loss account. This is in tabular form and spreads over two pages. At the foot of the first page a net balance is struck and this is apportioned between the parent and the subsidiaries at the top of the second page, while a third column gives consolidated figures. Following the first column downwards we find deducted the dividends and a £44,000 reserve for future income tax on the pre-acquisition profits of the two companies acquired during the year. The residue is shown separately as being added to the carry-forward. The second column shows that the subsidiaries retain all their net profits, and the overall picture is contained in the third column, which enables shareholders to see at a glance the relationship between dividend disbursements and profits retentions.

Society of Incorporated Accountants

SIXTY-FOURTH ANNUAL GENERAL MEETING

THE SOCIETY'S SIXTY-FOURTH ANNUAL GENERAL meeting was held at the Hall of the Chartered Auctioneers' and Estate Agents' Institute (by kind permission of the Council of that Institute) on May 25.

Sir Frederick Alban, C.B.E., J.P. (President) took the chair, and delivered the address which is printed on pages 138 to 145 of this issue.

The President moved the adoption of the report and accounts. This was seconded by Mr. A. Stuart Allen, Vice-President.

Mr. W. J. Back (London) said that he was sure everybody present would like to express thanks to Sir Frederick for the excellent speech to which they had listened. The Society was greatly indebted to the President for his visits all over the country, and for the addresses and other discourses that he had given to many of the District Societies. They also remembered the very fine paper that he delivered in the United States, which all of them had read, and which would be preserved in the literature of the Society and of the whole profession for many years to come.

The President had referred to the great detail that had to be provided under the new Companies Act in annual reports. Mr. Back said he thought that it was time consideration was given to the necessity for the preparation and the publication of at least two sets of accounts—one a detailed set which would be available to persons who were able to read them, the other a simple set, preferably in narrative form, which would be of use to the ordinary members of a company who claimed to have no special knowledge of accounts.

It appeared from a resolution later on the agenda that they were going to be invited again to contribute to the amount which the universities received from the accountancy bodies. Mr. Back suggested that they ought to know what kind of advantage had been gained, how many members of the Society were taking the courses and over how many persons the expenditure of £1,000 a year was being distributed. At any rate, he would suggest that the Council should keep continually under review the value of those courses, in view of possible alternative uses of the money involved. (Applause.)

Mr. C. Yates Lloyd (Manchester) said

that he was particularly glad to note the reference to the examination results, because his view was that many students had sat for their examinations rather too quickly. Undoubtedly that was partly owing to the terms of agreements with the Ministry of Labour and National Service with regard to grants. The effect could be seen from the papers and examination results.

He did not agree with Mr. Back regarding the universities scheme. They had not so far had the opportunity of knowing fully what that scheme was going to mean to them. The men who were studying at the universities were not yet qualified. He felt that so far the money had been well expended. (Applause.)

Mr. E. Ewart Pearce (Cardiff) was glad to notice that Sir Frederick Alban, Mr. A. Stuart Allen; Mr. Percy Barrowcliff and Mr. Bertram Nelson were on the Committee which would help to organise the International Congress of 1951.

Mr. Pearce stressed the value of contact with the District Societies. Those who had been Presidents, Vice-Presidents or Secretaries of District Societies would join with him in saying that the contacts and the friendships that they had made throughout the country had turned accountancy, which was a very hard life, into something that could be enjoyed.

Referring to refresher and similar courses at the universities, Mr. Pearce suggested that if it were impossible to have these courses more frequently at Cambridge and at Oxford there were universities in other parts of the country where they might be arranged.

Mr. J. E. Spoor (Newcastle-on-Tyne) welcomed what the President had said on the simplification of accounts. He felt that the new Companies Act was designed for the very large companies and for the rogues who were in business. But there were also many thousands of smaller companies which were carried on quite honestly. Mr. Spoor did not think that two kinds of accounts were necessary. There should be one kind of accounts, of a more simple type. Especially for small private businesses there should be an alternative requiring less detail.

He had been rather concerned about the universities scheme. He did not think, however, that they should stop spending money on the scheme. People who were going into practice as Incorporated Accountants should be encouraged to make use of it. In Durham they were sending round to the members explaining what the course really was.

He thought that publicity should be given to the fact that the period of non-articled service had gone down from nine years to six years.

Mr. F. A. Roberts (Tolworth, Surrey) said that it was interesting to see the accounts carrying a little of the "New Look," as fashioned by the Companies Act, 1948. He was in some doubt whether the descriptive cloak appearing in the balance sheet was covering figures which ought really to wear it. The position appeared to be that it was the intention of the Council that a year book should be issued in 1950, and, therefore, they thought it desirable to charge the income and expenditure account for 1948 with £2,000 in respect of part of the anticipated, or it might be the ascertained, cost. But the caption "Provisions" in the balance sheet could not be correct unless there was at December, 1948, a liability falling within the statutory definition of the word "provisions." He took it that the most that could have happened was that prior to December, 1948, a contract for the preparation of the book had been entered into with the printers. If that were so, the result would be that at December 31, 1948, there was merely a contractual obligation. No liability of any type would arise unless the printers had performed their part of the contract. He hesitated to accept the view that upon the making of a contract for work to be performed in the future a liability within the definition "provisions" at once resulted. If he were wrong in that, it meant that in the course of their duties they could not be satisfied that all provisions were included unless among other considerations they searched for details of all contracts which, although entered into by the client before the account date, were to be performed at some later date. There was a legal requirement as to capital expenditure which made this course necessary, but as he understood it, that was not so for revenue items. He

therefore thought that this item should have been described as "reserve."

It seemed that in 1947 the full cost of the year book issued in 1948 was charged against the income and expenditure account, whereas in the accounts for 1948, which were before the meeting, an apportioned figure appeared, namely, £2,000. Was not this a material respect in which the item charged in 1948 was affected by a change in the basis of accounting and was therefore such as to require a note in compliance with paragraph 14 (6) (b) of the Eighth Schedule? The difficulty appeared to be caused because the word "obligation" which arose from the entering into of a contract and the word "liability" were often regarded as synonymous.

Mr. Percy Toothill (Sheffield) (Vice-Chairman of the Finance Committee) regretted that the Chairman of the Committee (Mr. Cassleton Elliott) could not be there to deal with the questions raised. The liability was dealt with long before the end of 1948. They were definitely committed to this liability, and he thought that they were quite entitled to make, as they had done, a provision for such liability. Mr. Roberts would agree that it would not affect the dividends in any case! (Laughter.) The matter had been carefully considered by the Finance Committee. The Committee confirmed their action in charging £2,000 to the income and expenditure account, and thereby making provision towards the cost of the 1950 Year Book for which instructions were given by the Council in 1948. Therefore, in their opinion, there was a definite obligation.

Mr. C. P. Barrowcliff (Middlesbrough) said that he had helped in re-drafting the accounts. Some of them felt that it might be desirable to apply part of the balance of the revenue account to the capital account and make the round sum of £100,000 cover the cost of the Society's Hall, and leave the other balance available to be spent, if need be, or to make good deficiencies in future years. It seemed to be a very sound principle that they should not, at any rate in the future, interfere with what they might consider to be a capital sum, and that any balance, over and above that, they were entitled to utilise if the occasion should arise. They felt that they had a sum over and above that capital sum which they could utilise for special purposes without in any way interfering with the capital sum that had been applied more or less to balance their initial outlay on the Incorporated Accountants' Hall.

Mr. G. A. Watkins (Swansea) said he noticed that there was a charge for examination expenses and prizes of £7,971.

The cost of examining their students in 1948 was over £4 a head. That seemed to him to be a very high percentage of the cost of training a student.

The President, in reply, said that with Mr. Back's permission he would reserve the points about the universities scheme until they reached that item on the agenda. The cost of examinations included quite a large amount of local expenses as well as the cost of the halls, the examiners and the branches. It could, of course, include a fair amount of overhead expenses which were not specifically charged. The point that Mr. Watkins had put would be carefully noted. Mr. Spoors had raised a point about the period of non-articled service not being fully known, and that point had been noted.

The report and accounts were adopted.

The President then presented the Gold Medal of the Society to Mr. Frederick Harold King and the Silver Medal to Mr. James Darrell Nightingirl. Mr. King was an articled clerk to Mr. F. L. Gardiner, of Messrs. F. L. Gardiner & Co., of Scarborough. His articles were completed in 1944. He passed the Final examination at the first time of sitting in May, 1948, and he was awarded the First Certificate of Merit and a prize of 15 guineas. He also received the Henry Morgan Memorial Prize. Finally he was awarded the Gold Medal for 1948 as the best candidate of the year. (Applause.)

Mr. Nightingirl was an articled clerk to Mr. Kingscott, of Messrs. Kingscott, Dix & Co., of Gloucester. His articles were completed in 1948. He passed the Final examination in May, 1948, at the first time of sitting. He was awarded the Second Certificate of Merit and a prize of seven guineas. He was also awarded the Arthur E. Piggott (Manchester) prize for his performance in the Final examination in May, 1948.

The retiring members of the Council were re-elected. Mr. Henry Brown, O.B.E. (Fellow), City Treasurer, Rochester, and Miss Phyllis Elizabeth Marie Ridgway, B.A., J.P. (Fellow), Hull, who were appointed to the Council to fill occasional vacancies upon it in accordance with the provisions of Article 48, and who accordingly retired at the meeting, but who being eligible offered themselves for re-election, were re-elected.

The President moved:

"That this meeting authorises the Council to contribute to the Universities Scheme in 1949, and in each subsequent year, such sums not exceeding £1,000 per annum as the Council shall in its discretion think fit."

Mr. Percy Toothill (Sheffield) seconded the motion.

Mr. Bertram Nelson (Liverpool) said the approximate number of candidates admitted to the course were: in 1945, 27; in 1946, 91; in 1947, about 117; in 1948, about the same number as in 1947; making a total of 352. It was not possible to separate the figures between Institute, Society and Association because many of the candidates did not decide until the last minute into which body they would go. The total cost to the accountancy profession was £2,000 per annum, distributed amongst twelve universities, which made about £6 7s. 8d. per student. That by no means covered the cost to the student. The total cost to the Society in the last financial year was £678, which was a considerable reduction on the initial figure of £1,000. He assured Mr. Back that the Council did keep the finance provisions under their control and review.

The advantage that the Society obtained depended entirely on the use made of the scheme, and particularly on the members taking advantage of what was provided. Whatever happened, it was certain that the abler boys and girls would increasingly go to the universities. It was important that the accountancy profession should be increasingly dependent upon the universities.

There were considerable subsidiary advantages. Over the next twenty years in the Society there would be problems of recruitment. It was good that the considerable publicity given to the universities scheme should be associated with the name of the Society. Every schoolmaster in the country received literature from universities associating the name of the Society prominently with this scheme. There was another advantage. In all the areas where the scheme was operating there were joint committees of the Society, the Institute and the Association working together, and the more co-operation they had in the profession the better. They were co-operating closely with the universities, and some of the advantages obtained from the residential course came to them by reason of their close association with the universities. In several directions, such as research, their continued progress depends upon close collaboration with the universities.

The resolution was carried.

Mr. E. Ewart Pearce (Cardiff) moved:

"(a) That the fee of Mr. Arthur H. Hughes, Incorporated Accountant, who is willing to continue in the office of auditor for a further year, be fixed at seventy-five guineas for such year. (b) That the fee of Mr. Stanley I. Wallis, Incorporated Accountant, who is willing to continue in the office of auditor for a further year, be fixed at seventy-five guineas for such year—travelling expenses to be paid in addition."

Mr. G. W. Street (Manchester) seconded the motion, which was carried.

Sir Thomas Keens (Luton) proposed a resolution that the members thank Sir Frederick Alban for his distinguished services as President of the Society from 1947 to 1949, and particularly recorded their appreciation of his able representation of the Society in the United States and

Canada during September, 1948. Sir Thomas said that they had taken out of Sir Frederick's life two years of incessant work, incessant thought and incessant planning. The resolution was carried unanimously by acclamation. The President, thanking the meeting briefly, said that his two years of office had been two years of happiness and of rich experience.

EXTRAORDINARY GENERAL MEETING

Following the annual general meeting, an extraordinary general meeting was held. Special resolutions were passed to alter the Society's articles relating to the constitution of the Council.

A report of the proceedings will appear in our next issue.

SIXTY-FOURTH ANNUAL REPORT

PRESIDENT AND VICE-PRESIDENT

At a meeting of the Council held on Wednesday, May 26, 1948, Sir Frederick Alban, C.B.E., J.P., Cardiff and Newport (Mon.), and Mr. John Paterson Brodie, Stoke-on-Trent, were re-elected President and Vice-President respectively.

It is with deep regret that the Council records the death of Mr. John Paterson Brodie who had been a member of the Council since 1934. He rendered distinguished service to the Society and to the North Staffordshire District Society and enjoyed the high regard of his fellow-members.

In January, 1949, the Council elected Mr. A. Stuart Allen, London, Vice-President in place of the late Mr. John Paterson Brodie.

OBITUARY

The Society has also suffered a severe loss by the death, on March 16, 1949, of Mr. Fred Woolley, J.P., Southampton. Mr. Woolley was President of the Society from 1945 to 1947, when he undertook the urgent work of vitalising the post-war activities of the Society. He served on the Council from 1930 to the date of his death and took a continuous interest in the South of England District Society, of which he was the first Hon. Secretary. The Council desires to record its tribute to Mr. Woolley and to his work for Incorporated Accountants.

The South African (Western) Committee, Cape Town, notified with much regret the death of Sir Harry Hands, K.B.E., J.P., who was elected a member of the Society in 1905, and who for many years was the valued Chairman of that Committee.

COUNCIL AND COMMITTEE MEETINGS

Meetings were held during 1948 as follows:

Council	8
Committees and sub-Committees of the Council .. .	92
Joint Committees of the Accountancy Bodies .. .	12

MEMBERSHIP

	Fellows	Associates	Hon. Members	Total
At December 31, 1946	1,747	6,105	1	7,853
At December 31, 1947	1,784	6,109	1	7,894
Add:				
New members		389		389
Transferred from Associateship .. .	65			65
Re-admissions	1	8		9
	1,850	6,506	1	8,357
Deduct:				
Transferred to Fellowship		65		65
Resignations	5	17		22
Deaths	32	50		82
Other causes	3	3		6
Number on Roll at December 31, 1948 .. .	1,810	6,371	1	8,182
Net increase during year	26	262	—	288
Members in Practice	1,480	1,686		3,166
Members not in Practice	330	4,685	1	5,016
	1,810	6,371	1	8,182

LOYAL ADDRESS

On behalf of the Society, the Council tendered to Their Majesties The King and Queen a loyal and dutiful Address on the occasion of the twenty-fifth anniversary of Their Majesties' wedding. The following letter was received by the President from the Home Secretary, The Right Hon. J. Chuter Ede, M.P.:

Whitehall, S.W.1.

April 28, 1948.

Sir,—The King and the Queen read with much pleasure the loyal and dutiful address of the President, Council and members of the Society of Incorporated Accountants and Auditors on the celebration of the twenty-fifth anniversary of their Majesties' wedding, which I had the honour to lay before them.

I have it in command from the King to

convey to you, as President of the Society, their Majesties' warm thanks for these congratulations and good wishes which have added to their pleasure on this happy occasion.

I am, Sir,

Your obedient Servant,

Signed J. CHUTER EDE.

COUNCIL DINNERS

The President and Council had the honour of entertaining respectively The Rt. Hon. Viscount Jowitt (Lord Chancellor) and The Rt. Hon. Sir John Anderson, G.C.B., G.C.S.I., M.P., at dinners held in London in February and November, 1948.

EXAMINATIONS

There was again a considerable increase in the number of candidates who sat for the Society's examinations. The figures for the last three years are:

Year	FINAL		INTERMEDIATE		PRELIMINARY		TOTAL	
	No. of Candidates	Passed	No. of Candidates	Passed	No. of Candidates	Passed	No. of Candidates	Passed
1946	228	70—31%	284	121—43%	105	47—45%	617	238—39%
1947	664	224—34%	400	165—41%	125	45—36%	1,189	434—37%
1948	969	399—41%	763	295—39%	144	59—41%	1,876	753—40%

Most of the Final candidates were ex-Service men, who had received exemption from the Intermediate examination. It appears that many proceeded to their studies without having adequately covered the ground up to the Intermediate stage. In consequence their work for the Final examination was unduly accelerated.

Candidates for both the Intermediate and Final examinations were mainly those in receipt of training grants from the Ministry of Labour and National Service. A condition attached to each grant was that the candidate should present himself for an examination on a definite date, the date having been agreed with the Ministry at the time when the award was made. Although in many cases candidates were not adequately prepared, they presented themselves for examination upon the agreed dates in order to comply with the terms of their awards. Inevitably, however, there must be a time limit to the duration of awards of training grants.

Many District and Students' Societies are taking additional steps to afford assistance to students preparing for the examinations.

HONOURS, PRIZES AND CERTIFICATES

Prizes and Honours Certificates were awarded to the following candidates:

FINAL EXAMINATION

- 1st Certificate of Merit**
King, Frederic Harold, Scarborough (Prize) May, 1948
Crumpton, Ronald, Kidderminster (Prize) October, 1948
- 2nd Certificate of Merit**
Nightingirl, James Darrell, Gloucester (Prize) May, 1948
Burgess, Edward Herbert, London (Prize) October, 1948
- 3rd Certificate of Merit**
Cooper, Rustom Cavasjee, B.COM., Bombay (Prize) May, 1948
Thomas, Henry Wilson, Swansea October, 1948
- 4th Certificate of Merit**
Altorfer, Alfred, Swansea May, 1948
- 5th Certificate of Merit**
Morgan, Reginald George, Coventry May, 1948
- 6th Certificate of Merit**
Perry, John Alfred, London May, 1948

INTERMEDIATE EXAMINATION

- 1st Place Certificate**
Turner, Anthony John, London (dis-qualified for Prize by age limit) May, 1948
Bonner, Frederick Ernest, London October, 1948
Dewell, Desmond Edward, London October, 1948
- 2nd Place Certificate**
Peet, John, Southport (Prize) May, 1948
- 3rd Place Certificate**
Richards, Ronald Jack, Northampton (Prize) May, 1948

PRELIMINARY EXAMINATION

- 1st Place Certificate**
Boorman, Albert Edward Camburn, London May, 1948
- 2nd Place Certificate**
Cooper, June Louise, Grays, Essex May, 1948
- 3rd Place Certificate**
Waggott, Stanley Charles, Middlesbrough May, 1948

MEDALS AND SPECIAL PRIZES

The following special awards were made by the Council:

- A Gold Medal for the 1948 Final examinations to Frederic Harold King, Clerk to F. L. Gardiner & Co., Scarborough.
A Silver Medal for the 1948 Final examinations to James Darrell Nightingirl, Clerk to Kingscott, Dix & Co., Gloucester.

The Sir James Martin Memorial Exhibition in respect of the Intermediate examination, May, 1948, to Ronald Jack Richards, Clerk to Mr. W. H. Fox (Kilby & Fox), Northampton.

The Sir James Martin Memorial Exhibition in respect of the Intermediate examination, October, 1948, to Desmond Edward Dewell, Clerk to Mr. R. E. Yeabsley (Hill, Vellacott & Co.), London.

The Henry Morgan Memorial Prize for meritorious work in the group of Accountancy subjects for the 1948 Final examinations to Frederic Harold King, Clerk to F. L. Gardiner & Co., Scarborough.

The Arthur E. Piggott (Manchester) Prize for special merit in Accountancy and Auditing in the 1948 Final examinations to James Darrell Nightingirl, Clerk to Kingscott, Dix & Co., Gloucester.

CONDITIONS OF ENTRY TO THE

EXAMINATIONS: BYE-LAW CANDIDATES

The Council has amended bye-law 11, relating to the admission to the Society's examinations of candidates not serving under articles of clerkship. As from May 27, 1948, a candidate must have completed three years' approved service before qualifying for admission to the Intermediate examination. Permission to sit for the Final examination is dependent upon a candidate passing the Intermediate examination and completing six years' approved service. Approved service is normally deemed to commence when a candidate attains the age of 17½ years, but may be permitted to count from the age of 16½ years in the case of a candidate who has already passed or qualified for exemption from the Preliminary examination and is receiving practical experience in accordance with the Society's requirements.

ARTICLED CLERKS AND BYE-LAW CANDIDATES

The figures for the entry of articled clerks and bye-law candidates during 1947 and 1948 were:

	Articled Clerks	Bye-law Candidates	Total Candidates enrolled
1947 ..	381	973	1,354
1948 ..	570	768	1,338

EXAMINATION FEES

After reviewing the cost of conducting the Society's examinations, the Council decided that the following revised scale of fees should come into operation as from December 1, 1948:

	£	s.	d.
Preliminary examination—			
exemption ..	2	2	0
Preliminary examination ..	3	3	0
Intermediate examination ..	4	4	0
Final examination ..	5	5	0

EXAMINATION CENTRES

Commencing with the May, 1949, examinations, a new examination centre will be opened at Birmingham. In future the examinations will be conducted at London, Manchester, Leeds, Cardiff, Birmingham, Glasgow, Belfast and Dublin.

BOOKLET: SYLLABUS OF EXAMINATIONS
A new brochure in regard to the examinations, published in December, 1948, explains the conditions of entry to the Society's examinations and of admission to membership. The brochure includes notes on the qualities required for an accountancy career and on the scope of the profession.

DEFERMENT OF NATIONAL SERVICE

An articled clerk, born on or after January 1, 1929, who enters into articles before his eighteenth birthday or within three months of any deferment he has obtained in order to stay at school, may apply for deferment of national service until completion of his articles.

A bye-law candidate born on or after January 1, 1929, who passes or obtains exemption from the Society's Preliminary examination before his eighteenth birthday, may apply for deferment of national service for a period of five years. It should be noted that this deferment commences from the date upon which the candidate entered the profession and not from his eighteenth birthday.

An application for deferment should be made to the nearest Ministry of Labour and National Service Office, where the relevant forms N.L.11 (Revised December, 1946) and N.S.294 may be obtained.

CLASS B RELEASE

Whilst application may still be made for early release of men serving in the Forces, it should be understood that a request must be supported by a statement from a principal of the firm that the man in question is a "key man" in the firm and that work of national importance is being delayed through his absence.

In view of the conditions which must be satisfied, it is clear that articled clerks and

bye-law candidates do not fall within the terms of Class B release.

FURTHER EDUCATION AND TRAINING SCHEME : MAINTENANCE GRANTS

Requests to the Ministry of Labour and National Service for maintenance grants may be made only by clerks who can show that their national service prevented them from beginning, or interrupted, their articles. The minimum qualifying period of national service is twelve months. The conditions applicable to maintenance grants vary according to the date of entry in H.M. Forces. The conditions, which were recently revised, are as follows :

An articled clerk who joined H.M. Forces on or before August 15, 1945, may apply for a maintenance grant to cover the balance of professional qualifying service. If, on completion of this period, the clerk has still to sit for his Final examination, the Ministry will consider an application for an extension of the grant up to the agreed date for taking that examination, subject to the period of the extension not exceeding twelve months. The clerk is required to enter into a trainee agreement with his principal in respect of the extended period, and, where he is receiving less than £2 10s. per week, the award is reassessed upon the assumption that his principal is paying him that amount.

An articled clerk who joined H.M. Forces on or after August 16, 1945, and on or before December 31, 1946, may also apply for a maintenance grant. The Ministry have decided that the maximum duration of grants in this category shall be for three years and six months. From this period a deduction is made of any articulated service which the applicant completed before his service in H.M. Forces.

An articled clerk who joined H.M. Forces on or after January 1, 1947, and on or before September 30, 1947, may apply for a maintenance grant. Three years is the maximum duration of the award to candidates who come within this group. A deduction is made of any articulated service which the applicant completed before his service in H.M. Forces.

Articled clerks and bye-law candidates who joined H.M. Forces after September 30, 1947, are not eligible for any award under the Ministry of Labour's Further Education and Training Scheme.

NATIONAL INSURANCE SCHEME : ARTICLED CLERKS

Information based on a memorandum issued by the Ministry of National Insurance relating to the position of articulated clerks under the National Insurance Act, 1946, is given in an appendix.*

* The appendices are not reproduced.

CONCESSIONS FOR NATIONAL SERVICE

The concessions granted by the Council to ex-Service candidates have recently been revised and are set out in an appendix.*

THE ACCOUNTANCY PROFESSION AND THE UNIVERSITIES

At an extraordinary general meeting of the Society held on July 31, 1945, it was agreed that the Society should make contributions not exceeding £1,000 per annum for three years for the purpose of providing grants to universities and university colleges participating in the scheme arranged between representatives of the profession and of the universities. Up to December 31, 1948, the Society contributed an aggregate of £2,367. The Council recommends that authority be given for the payment, towards the cost of the scheme in 1949 and in each subsequent year, of such sums not exceeding £1,000 per annum as the Council shall in its discretion think fit. A resolution to this effect will be submitted to the annual general meeting.

There was keen competition for vacancies at all the universities and university colleges during the year under review. This was due to the high percentage of vacancies reserved for ex-Service men and women. Nevertheless, it should be realised that the general educational standard necessary for entry to a university is high : at present a good Higher School Certificate, or its equivalent, is required. The accountancy representatives on the Joint Standing Committee have represented to the universities that many suitable candidates for the profession are thereby prevented from taking advantage of the scheme.

A booklet giving particulars of the universities scheme may be obtained on application to the Secretary.

ACCOUNTANTS' JOINT PARLIAMENTARY COMMITTEE

Parliamentary measures affecting the qualification and status of accountants and auditors have again been considered by the Accountants' Joint Parliamentary Committee, and appropriate action was taken as necessary. It is satisfactory to observe that during 1948 Parliament prescribed membership of one or more of the bodies represented on this Committee as an essential qualification for appointment as auditor in the Gas Act and in other measures establishing new public authorities : the Government have included a similar clause in the Iron and Steel Bill.

VISIT OF THE PRESIDENT TO UNITED STATES AND CANADA

The President, accompanied by Mr. Bertram Nelson and Mr. A. A. Garrett (Secretary), visited the United States of America and Canada during September and October.

In response to the cordial invitation of the President and Council of the American Institute of Accountants, they attended that Institute's sixty-first annual meeting held in Chicago, at which Sir Frederick Alban read a paper on "Socialisation in Great Britain and its effect on the Accountancy Profession." This paper created considerable interest on both sides of the Atlantic.

During their visit to Canada, the Society's representatives were entertained by the Chairman of the Canadian Branch of the Society, Colonel H. D. Lockhart Gordon, D.S.O., F.C.A. (Canada), F.S.A.A., and by members of the Committee both in Toronto and in Montreal. They were also the guests of the respective Presidents and Councils of the Dominion Association of Chartered Accountants, of the Institute of Chartered Accountants of Ontario and of the Institute of Chartered Accountants in the Province of Quebec.

Wherever they went Sir Frederick, Mr. Nelson and Mr. Garrett received a generous welcome from Incorporated Accountants and other members of the profession. They returned home with much useful information and happy memories of the exceeding kindness of many professional friends.

The Council recorded its warm thanks to all those who received and entertained the Society's representatives.

A more detailed report of this visit was published in the November, 1948, issue of ACCOUNTANCY.

INTERNATIONAL CONGRESS, 1951

Following the desire for an exchange of professional information upon an international basis, representatives of American, Canadian and British bodies considered at a meeting held in Chicago the means of promoting this proposed development. It was decided to recommend that an International Congress on Accounting be held in Great Britain in 1951. This recommendation has been accepted by the principal accountancy bodies in the United Kingdom and Eire, and a Committee to organise the Congress and to issue invitations to Dominion, American and foreign bodies of accountants has been constituted. The Society's representatives on that Committee are : Sir Frederick Alban, Mr. A. Stuart Allen, Mr. C. Percy Barrowcliff and Mr. Bertram Nelson. The Chairman of the Committee is Mr. B. H. Binder (President of The Institute of Chartered Accountants) and the Vice-Chairman, Sir Frederick Alban. The proposed Congress in 1951 will follow in series with similar congresses held prior to the war, the last of which was in 1938.

CONGRESS ON ACCOUNTING IN PARIS

A Congress on Accounting, organised by the profession in France, was held in Paris from May 10 to 15, 1948. In response to the

invitation of the Congress Committee, the Society was represented by Mr. R. M. Branson, Leicester, and Mr. A. A. Garrett.

DISCIPLINARY COMMITTEE

The Disciplinary Committee considered circumstances in nine cases. One member was excluded from the Society under the provisions of Articles 34 and 35; one member was suspended under Article 32; and two members were censured under Article 32.

PROFESSIONAL CONDUCT : INSOLVENCY MATTERS

After consideration of the report of a Joint Committee of the accountancy bodies, set up in 1946, the following pronouncement was made :

The Council has considered the activities of accountants connected with Trade Protection Societies and Trade Associations in relation to insolvency matters.

The Council desires to stress the fact that the holding by a member of the Society of any office or employment in a Trade Protection Society or Trade Association does not of itself create the relationship of accountant and client as between that member and any member of such Trade Protection Society or Trade Association.

The soliciting of business in insolvency matters by any member, whether or not such member is connected with a Trade Protection Society or Trade Association, may, on a complaint being made, involve disciplinary action.

BRANCHES AND DISTRICT SOCIETIES

Meetings and functions arranged for members have been well attended in many districts and there was marked development in regard to professional education of students. Regular tuition classes and pre-examination courses were held in many areas, including short residential courses at Liverpool and Manchester Universities organised by the respective District Societies. The Council asks members to give students on their staffs every help and encouragement to attend Students' Societies' meetings and courses. Further, the Council considers that the usefulness of the work of District Societies would be intensified if a wider measure of support were given by Incorporated Accountants.

The annual conference of representatives of Branches and District Societies and members of the Council took place on May 27. This conference again afforded the Council an opportunity of hearing at first hand the views of representatives and of giving information on matters under review by the Council. Administrative questions were discussed at a subsequent meeting of Honorary Secretaries of Branches and District Societies and Officers of the Society.

The President and members of the Council made numerous visits to Branches and District Societies in the United Kingdom and Eire during 1948.

APPOINTMENTS

The Council records the following appointments of members of the Society :

Sir Frederick Alban, C.B.E., J.P., Cardiff, as a member of the Electricity Tribunal set up under the Electricity Act, 1947.

Mr. A. B. Griffiths, O.B.E., Sheffield, as a Public Works Loan Commissioner.

Mr. A. H. Marshall, Ph.D., City Treasurer of Coventry, seconded to the Sudan Government to advise on local government.

Mr. D. R. Matheson, M.A., LL.B., Edinburgh, as a member of the Panel of Accountants for Scotland for Tribunals under the Coal Industry (Nationalisation) Act.

Mr. A. E. Middleton, London, as a member of the Royal Commission on the Press and of the Standing Consultative Committee on the administration of the London Airport.

Mr. Frank E. Price, Newport (Mon.), as a member (part-time) of the Wales Gas Board.

Mr. R. E. Yeabsley, C.B.E., as a member of the Commission on Monopolies and Restricted Practices, and of the Committee on the Census of Production.

INCORPORATED ACCOUNTANTS' HALL

A licence for the restoration of the structure of the Hall was recently granted by the Ministry of Works. This licence is for essential work only. The repair of the extensive bomb damage necessitates the complete evacuation of the Hall for a period of about eighteen months while the work is in progress. Temporary office accommodation has been arranged at 12, Milford Lane, Strand, London, W.C.2, which is immediately behind Incorporated Accountants' Hall. Postal communications should continue to be sent to Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2. The telephone number (Temple Bar 8822) remains unaltered.

RESEARCH

The Incorporated Accountants' Research Committee, which was the first accountancy research body to be formed in this country, has expanded its work during the past year. A new edition of *Company Accounts under the Companies Act, 1948* by F. Sewell Bray and H. Basil Sheasby was published. Research on local government finance was commenced by a Joint Committee of the Society, the Institute of Municipal Treasurers and Accountants, the County Accountants' Association and Exeter University College. The issue of *Practice Notes* was commenced with a brochure on "The

Special Contribution" by James S. Heaton, a member of the Committee. *Farm Accounts* by F. Sewell Bray and C. V. Dawe, Ph.D. (Department of Agriculture, Bristol University), has been published on behalf of the Committee by the Oxford University Press.

Articles on "Directors' Emoluments under the Companies Act" were published in *ACCOUNTANCY*. The Leicester sub-Committee has done considerable work on Boot and Shoe Costings methods and on Periodical Statements. A new edition of *Design of Accounts* by F. Sewell Bray and H. Basil Sheasby is now in the press. Work was also commenced on Accounting Ratios and the Valuation of Goodwill. Contacts were established with overseas accounting research bodies. A memorandum was submitted to a Treasury Committee appointed to consider the Form of Government Accounts and verbal evidence was given on behalf of the Research Committee.

In order to encourage research in professional subjects, the Research Committee offers a prize of 100 guineas and a prize of 50 guineas for the best theses submitted by members of the Society on subjects within the general scope of accountancy or allied subjects, including industrial and commercial administration, public administration, economics and statistics. Full details were published during December, 1948, in the first issue of *Accounting Research*, in *ACCOUNTANCY*, in *The Accountant*, in *Taxation* and in *Local Government Finance*. A member wishing to compete should write to the Secretary of the Society not later than June 30, 1949, and indicate the suggested subject of his thesis. Completed theses must reach Incorporated Accountants' Hall not later than March 31, 1950.

The first issue of *Accounting Research*, sponsored by the Incorporated Accountants' Research Committee, was published on December 1, 1948, and was well received. *Accounting Research* fulfils a long-felt need for a medium of advanced work in accounting and cognate subjects, which cannot be compressed within the compass of articles suitable for the weekly and monthly accounting journals.

The editors are Mr. F. Sewell Bray and Mr. Leo T. Little and the publishers are Cambridge University Press.

At first, *Accounting Research* will appear twice a year, and each volume will consist of four issues. The first issue is now out of print: it is hoped that the second will be published during May, 1949.

"ACCOUNTANCY"

ACCOUNTANCY, the monthly journal of the Society, has a continuously increasing circulation and covers subjects of interest to members of the profession, whether in practice or in industry, to students of accountancy and to business executives. An increase in the quota of paper has

permitted an extension of the number of columns, and new features have been introduced.

The publication appeared in a new format in January, 1949, and the contents were enlarged. In each issue a large section is devoted to taxation, including reports of all tax cases decided in the Courts. Other regular features are "Points from Published Accounts," "The Month in the City" and "Legal Notes." A series of articles on outstanding aspects of the new company legislation is nearly completed.

COMPANIES ACT, 1948

The following bodies of accountants established in the United Kingdom were recognised by the Board of Trade for the

purposes of Section 161 (1) of the Companies Act, 1948:

The Institute of Chartered Accountants in England and Wales.

The Society of Incorporated Accountants and Auditors.

The Association of Certified and Corporate Accountants.

The Society of Accountants in Edinburgh.

The Institute of Accountants and Actuaries in Glasgow.

The Society of Accountants in Aberdeen.

The Institute of Chartered Accountants in Ireland.

A member of one or other of the foregoing bodies is accordingly qualified for appointment as auditor of a public or a non-exempt private company. In addition,

persons may be authorised by the Board of Trade to be so appointed:

- as having similar qualifications obtained outside the United Kingdom, or
- as having obtained adequate knowledge and experience in the course of his employment by a member of one or other of the foregoing bodies, or
- as having, before August 6, 1947, practised in Great Britain as an accountant.

COMPANIES ACT, 1948: ACCOUNTS

Although the Companies Act, 1948, has been in force for a comparatively short time, considerable experience has been gained of the application of the accountancy provisions. When the 1947 Act was passed,

BALANCE SHEET, December 31, 1948

1947 £	ACCUMULATED FUNDS—	£	£	1947 £	FIXED ASSETS—	£	£
96,525	Balance at December 31, 1947..	97,566			FREEHOLD PROPERTY—		
	Add—Surplus on Defence Bond				Incorporated Accountants' Hall at		
	Redemption	10			cost	100,954	
1,041	Appropriation from Income and			100,000	Less Amount written off	954	
	Expenditure Account for 1948 ..	2,424	100,000				100,000
					FURNITURE AND FITTINGS—		
	CONTRIBUTIONS TOWARDS RESTORATION				Book Value at December 31, 1931,		
	OF HALL—				with additions since that date, at		
	Balance at December 31, 1947..	603			cost, less sales	6,994	
603	Add Further Contribution	6	609	2,536	Less Depreciation	3,657	3,337
	INCOME AND EXPENDITURE ACCOUNT				LIBRARY: Book Value at December 31,		
	BALANCE—	1,135	300		1931.. .. .	300	
98,169			101,744	102,836			103,637
30,000	5% MORTGAGE DEBENTURES	30,000			(Note: The Hall, Furniture and Fittings		
	PROVISIONS—				sustained damage by enemy action.)		
	For 1950 Year Book	2,000			INVESTMENTS—		
	Research Committee	£622			Government Stocks at cost (Market		
622	Less amount applied in 1948 ..	61	561		Value at December 31, 1948, £18,646)	16,855	
			2,561		Mortgage Debentures of The Society		
	CURRENT LIABILITIES—				(Gift)	300	17,155
10,780	Sundry Creditors and Accruals ..	8,168	18,155		CURRENT ASSETS—		
340	Income Tax	827			Debtors and Accruals	528	
1,354	Subscriptions and Fees received in		1,823		Cash at Banks and in Hand ..	23,750	24,278
	advance	1,770	18,651				
			10,765				145,070
141,465			145,070	141,465	SPECIAL PRIZE TRUST FUNDS—		
	SPECIAL PRIZE TRUST FUNDS—				Henry Morgan Memorial:—		
	Henry Morgan Memorial	508			£500 2½% Treasury Stock ..	500	
	Arthur E. Piggott (Manchester)				Memorial:—		
1,025	Memorial	511	1,019		£500 3% Savings Bonds 1965-75..	500	
					Cash at Bank	19	1,019
	FREDERICK J. ALBAN,			1,025			
	President.						
	PERCY TOOTHILL,						
	Vice-Chairman of the Finance Committee.						
	March 24, 1949.						
£142,490		£146,089	£142,490			£146,089	

AUDITORS' REPORT TO THE MEMBERS

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Society so far as appears from our examination of those books. We have examined the above Balance Sheet and annexed Income and Expenditure Account which are in agreement with the books of account. In our opinion and to be best of our information and according to the explanations given to us the said accounts give the information required by the Companies Act, 1948, in the manner so required and the Balance Sheet gives a true and fair view of the state of the Society's affairs as at 31st December, 1948, and the Income and Expenditure Account gives a true and fair view of the income and expenditure for the year ended on that date.

ARTHUR H. HUGHES
STANLEY WALLIS
Incorporated Accountants,
Auditors.

London, 19th April, 1949.

INCOME AND EXPENDITURE ACCOUNT for the Year ended December 31, 1948

EXPENDITURE.				INCOME.			
1947		£	£	1947		£	£
	ESTABLISHMENT CHARGES—				GENERAL INCOME—		
196	Rates	237		32,463	Subscriptions	33,216	
1,867	Heating, Cleaning, Lighting	1,931		2,105	Entrance Fees	4,426	
238	and Sundries	224		626	Sundry Fees and Receipts	678	
679	Insurances	428		35,194			
288	Decorations and Repairs	102			CONTRIBUTIONS IN RESPECT OF HEAD		38,320
158	Surveyors' Fees	150			OFFICE ADMINISTRATIVE SERVICES—		
	Depreciation of Furniture and	nil			London and District Society	400	
	Fittings	150			London Students' Society	590	
	Depreciation of Property	150					
3,426			3,072		INTEREST RECEIVED—		990
	ADMINISTRATION AND GENERAL EXPENSES—			608	From Investments	584	
10,639	Salaries and Pension Fund	11,331		15	Debentures of The Society (£300 : Gift)	13	
1,166	Travelling Expenses	1,543		53	Bank	110	
2,744	Printing and Stationery	2,836					
4,300	Year Book—Provision	2,000			"ACCOUNTANCY"—Gross Receipts less Expenses		709
788	Postages, Telegrams and Telephone	1,039		382			
949	Publication of Reports and Meetings	926			EXAMINATION FEES	39,929	
742	Legal and Parliamentary Expenses	663		5,434		7,530	
231	Expenses of Entertaining	498					
	Visit to U.S.A. and Canada—						
	Expenses of Society's Representatives	945					
39	Chambers of Commerce Subscriptions	73					
210	Audit Fees and Expenses	165					
1,210	Miscellaneous Expenses	1,198					
23,018		23,217					
1,500	DEBENTURE INTEREST (Gross)	1,500					
	GRANTS TO BRANCHES AND DISTRICT						
6,018	SOCIETIES AND PANEL OF LECTURERS		6,917				
	EXPENSES						
265	LIBRARY AND EDUCATIONAL EXPENSES—						
632	Library Additions	348					
	Universities Scheme for the Account-						
329	ancy Profession	678					
	Refresher Course at King's College,						
1,226	Cambridge	1,026					
	"ACCOUNTANCY" COSTS AND EXPENSES—						
	(including £105 paid to Council						
	Member)	6,218					
	Less Gross Receipts	6,021					
		197					
35,188		35,929					
5,857	EXAMINATION EXPENSES AND PRIZES	7,971					
	EXCESS OF INCOME OVER EXPENDITURE—						
	Amount appropriated to Accumulated						
	Funds	2,424					
1,041	Amount unappropriated	1,135					
		3,559					
£42,086		£47,459		£42,086			£47,459

it was foreseen that the accountancy provisions were to some extent experimental, and limited power was given to the Board of Trade to amend them, if need arose. It is therefore important that information as to practical difficulties should be collated and studied. Accordingly, the Council will welcome information and suggestions from members.

At the instance of the London District Society and the London Students' Society, a lecture on the Accountancy Provisions of the 1948 Act was given by Mr. Bertram Nelson and a lecture on Directors' Emoluments by Mr. P. J. Sykes, Barrister-at-Law. Prints of these lectures in booklet form are being prepared.

THE STOCK EXCHANGE AND PROFIT CERTIFICATES

A memorandum relating to certificates of profit to be furnished by reporting auditors or accountants for the purposes of prospectuses, offers for sale and advertised statements was issued by the London Stock Exchange during November, 1948. This memorandum was prepared after consultation with the Institute of Chartered Accountants and the Society.

LIBRARY

The Library, which has recently been moved to 12, Milford Lane, is open to all members of the Society and to members of Students' Societies.

Books not in the Library may often be obtained on loan through the National Central Library or the Management Library.

The Library now has only half the space which was available at the Hall before the damage sustained by enemy action in 1944. Many of the older books, including sets of periodicals and law reports, are therefore still inaccessible.

When the reconstruction of Incorporated Accountants' Hall is completed, it is hoped that the Library may offer greatly improved facilities to members and students seeking books or up-to-date information on any subject within the scope of the accountancy profession.

Acknowledgment is made of the continued assistance of the librarians of other professional bodies who, for the last five years, have allowed members access to their libraries for reference purposes.

APPOINTMENTS DEPARTMENT

During the year, the Appointments Department rendered increasing service to applicants and to employers. About 50 per cent. of the members who registered their names obtained positions through the Appointments Department. Generally speaking, the demand for men under thirty-five years of age greatly exceeded the number available, while there were more applicants over forty-five years of age than vacancies.

The Department has endeavoured to assist boys about to leave school by advising them of vacancies for articled clerks, notified by principals. The results indicate that this is a useful development. Members leaving vacancies for articled clerks are invited to advise the Secretary.

COUNCIL

The following members of the Council retire and offer themselves for re-election under Article 49 :

London :

Mr. Edward Cassleton Elliott.
Mr. Arthur Edward Middleton.
Mr. Joseph Stephenson, O.B.E.

Provinces :

Sir Frederick Alban, C.B.E., J.P.
Mr. Robert Bell.
Mr. Charles Percival Barrowcliff.
Mr. Alexander Hannah.
Mr. William Bertram Nelson, J.P.
Mr. Thomas Harold Platts.

It will be observed from the notice of the annual general meeting that special notice has been given to the Society by Sir Frederick Alban of his intention to propose at such meeting that Mr. Alexander Hannah, who was born on January 18, 1877, be re-elected as a member of the Council, to hold office in accordance with the Articles of Association of the Society notwithstanding his age.

Mr. Arthur Benjamin Griffiths, having retired from his appointment as City Treasurer of Sheffield, tendered his resignation from the Council, which was accepted with regret. The Council records its appreciation of Mr. Griffiths' long and valuable services to the Society.

In accordance with the provisions of Article 48, the Council made the following appointments to occasional vacancies on the Council :

Provinces :

Mr. Henry Brown, O.B.E., Fellow, City Treasurer of Rochester.
Miss Phyllis Elizabeth Marie Ridgway, J.P., B.A., Fellow in public practice, Hull.

A resolution for the election to the

Council of Mr. Henry Brown and of Miss Phyllis E. M. Ridgway will be submitted to the annual general meeting of the Society in May, 1949.

AUDITORS

Mr. Arthur Henry Hughes, Incorporated Accountant, London, and Mr. Stanley Wallis, Incorporated Accountant, Nottingham, have notified that they are willing to continue in office as auditors.

ACCOUNTS

The audited accounts of the Society for 1948 are annexed.

ACCOUNTANTS' SERVICES TO INDUSTRY

THE INCORPORATED ACCOUNTANTS' HULL AND District Society held a dinner in the Hull Guildhall on March 11. (It is regretted that pressure upon space has prevented our publishing an earlier report of this function.) Mr. John Wood, F.S.A.A., F.C.A., President of the District Society, presided over a large attendance. The guests included the Lord Mayor of Hull (Alderman T. R. Broadbent) and the Lady Mayoress, Sir Frederick Alban, C.B.E., J.P., F.S.A.A. (President of the Society of Incorporated Accountants) with Mr. A. A. Garrett (Secretary) and Mrs. Garrett, Mr. R. C. Moore, M.A., M.Sc., M.Ed. (Director of Education for Hull), Mr. Tom Hudson, M.B.E. (President of the Hull Fishing Vessel Owners' Association, Ltd.), the Sheriff of Hull (Councillor J. H. Barney) and Mrs. Barney, Mr. Geoffrey Hindson (Manager, Midland Bank), Captain S. R. M. Tyrer (Warden, Trinity House, Hull), and representatives of other professional bodies, commerce, industry and the Inland Revenue.

Mr. Tom Hudson, M.B.E., President of the Hull Fishing Vessel Owners' Association, Ltd., who proposed the toast "The Humber and its interests," pointed out that the fishing industry contributed in no small way to the trade of the great port of Hull. Because of two factors—the war and the expansion of trade since the war—a great many things remained to be done, but he believed they could look forward with confidence to a period of prosperity in the Humber. Perhaps one of the only good things that had come out of the mass of regulations with which we were almost strangled to-day was the fact that professional and business men had come more closely together, and to a closer understanding of each other's problems than ever before. Without the guidance of their friends, the accountants, many business men would quickly find themselves in extremely deep water.

The Lord Mayor of Hull, Alderman T. R. Broadbent, in his response, spoke of the Humber and its interests and paid tribute to the industry of past generations who had

made the port great. He was confident that the problems of the city of Hull would be solved and the development which was so necessary would be achieved. Hull, with its great tradition, was going to produce bigger things in the future.

"The Society of Incorporated Accountants" was proposed by Mr. R. C. Moore, M.A., M.Sc., M.Ed., Director of Education for Hull, who said that a surprising number of technical and professional societies had been created during the last hundred years. They were symbolic of the change that was taking place in the life of this country. He was surprised at the growth of the Society of Incorporated Accountants since its formation nearly sixty-five years ago, and was interested to learn that there were a number of District Societies. After expressing interest in the virile students' associations, he referred to the research work which was being done and said that members would find it very helpful. This work would become more important as the years went by.

The toast was coupled with the name of Sir Frederick Alban, C.B.E., J.P., F.S.A.A., President of the Society of Incorporated Accountants, who gave the response. Amongst the wide ramifications of the accountancy profession and of the Society, he said that the closest attention was being given to the needs of ex-Service men. This had involved much valuable educational work. They had viewed with sympathy the special efforts of men already qualified to bring up to date their professional knowledge, and of students who were faced with the need for concentrated study for the examinations and some further practical training in the profession. He thought they could feel happy about the men who had qualified; they had made themselves familiar with the extensive needs of current practice and had found useful work in the practising side of the profession or in industrial accounting or in municipal or Government accountancy. The problem had been more serious for students as many of them had undoubtedly found the task rather more formidable than they and the Society had expected.

Much of the educational work had fallen upon the District Societies, and the Council valued the activities in the Hull area, where members were widely scattered.

In the larger sphere of policy and activity, the Society had constantly before it the relations of the profession with the public and the development of services which were given by its members and those which the Society could give in its corporate capacity.

The Companies Act, 1948, had placed many new responsibilities on directors and secretaries of companies and upon auditors. The short experience of the operation of the

Act already suggested that the obligations imposed might have been set forth in too great detail. As a tentative suggestion, he felt that there might be a gradual tendency towards simplification.

Sir Frederick went on to discuss taxation problems and pointed out that the joint committee of the accountancy bodies which considered them was not concerned with the more controversial aspects of fiscal policy, but it did bring to the notice of the Board of Inland Revenue problems which, in the view of the accountancy profession, called for administrative concessions or possibly legislation.

Perhaps he could modestly claim it was through members of the accountancy profession that some solutions of the problems of industry and commerce were found and others would be sought.

Mr. John Wood, proposing "Our Guests," remarked that they had with them the Lord Mayor and Lady Mayoress, the Sheriff of Hull (Councillor J. H. Barney) and his lady, the presidents of other local District Societies, presidents of kindred societies, the chief representatives of trade, commerce and professions in the district, together with several of H.M. Inspectors of Taxes, and many professional friends. Mr. Wood paid special tribute to Mr. Alexander Macdonald, F.S.A.A., a Vice-President of the Hull Society, who had acted as secretary to the committee responsible for organising the dinner.

Mr. Geoffrey Hindson, manager of the Midland Bank, Ltd., Whitefriargate, Hull, responded.

BRADFORD'S PLACE IN THE ECONOMY

THE ANNUAL DINNER OF THE INCORPORATED Accountants' Bradford and District Society was held at the Midland Hotel, Bradford, on March 25. (We regret that a report of this dinner was not published in our last issue, owing to lack of space.) Mr. W. A. Heaton, President of the Bradford Society, was in the chair. The company included the Lord Mayor of Bradford (Alderman F. J. Cowie, J.P.), Sir Geoffrey Burton, M.A., K.C.S.I., K.C.I.E., Sir Frederick Alban, C.B.E., J.P., F.S.A.A. (President of the Society of Incorporated Accountants) and Mr. A. A. Garrett (Secretary), Mr. Kenneth Parkinson (President of Bradford Chamber of Commerce), Mr. Geoffrey A. N. Hirst (Vice-President of Leeds Chamber of Commerce), Mr. N. Hind (Headmaster, Keighley Boys' Grammar School), and other representatives of commerce, industry and the professions.

Sir Geoffrey Burton, M.A., K.C.S.I., K.C.I.E., proposed "The City and Trade of Bradford and District." Sir Geoffrey, who has served with distinction for many years in the Indian Civil Service, said he had no

claim to knowledge of his hosts' profession, for there were very few professional accountants and auditors in his part of India. Sir Geoffrey caused amusement with his description of an Indian method of keeping accounts tied together with odd bits of string, and his revelation that the village banker habitually kept three sets of accounts—one for himself, one for his partner and the third for the income tax assessor. He was glad to see from the Society's year book how many members were now in India. It was of great importance to have qualified men there.

Telling of his impressions on his return to Bradford, he regretted the appearance of large combines in place of the smaller family firms, with their less impersonal atmosphere, and thought everything seemed more centralised and controlled from London. One wondered if they knew or cared what happened in Bradford.

Responding to Sir Geoffrey's toast, the Lord Mayor of Bradford, Alderman F. J. Cowie, J.P., said that in his opinion the people of this country had put their coats on too soon after the war. He hoped to see new industries come to Bradford, and hoped that co-operation from the City Council would be extended to industries wishing to acquire land for that purpose. He wished more younger people would take an interest in their municipal government: the time was rapidly drawing near when they would be needed to serve their city and relieve some of those who had done so for twenty-four years and more.

Mr. Kenneth Parkinson, President of Bradford Chamber of Commerce, seconded the Lord Mayor's response. The previous speakers, he said, had referred to a recent comment in a B.B.C. programme that Bradford was a "mucky hole." Bradford was mucky, and it did lie in a hollow, but it was a productive city of great importance. It had houses which might well be demolished and factories out of date, but it was hoped to rectify these things in time.

There were proposals to widen the scope of the city's industry. Many things must be considered before there was reckless rushing into the idea of decentralising an industry such as wool textiles. If the wool trade were dispersed Bradford would lose its significance and importance among the cities of England. Centralisation had definite advantages to those who ran the industry, with personal consultations easy of access instead of impersonal letters and telephone calls. It was, he said with a smile, very difficult to be dishonest with a man you might meet the next day.

Mr. Geoffrey A. N. Hirst, Vice-President of Leeds Chamber of Commerce, proposing "The Society of Incorporated Accountants and Auditors," paid tribute to the enormous sympathy and attention shown him by

members of that great profession. It was the nearest thing he knew to analgesia for company promoters.

He thought this country had been making a mistake in exporting so large a proportion of plant and machinery to countries which had much cheaper labour working under conditions which would not be tolerated here. Under present working hours production would have to be speeded up infinitely more, and unless taxation was reduced to enable profits to be ploughed back into industry, the economic development of the country would be retarded. The Society of Incorporated Accountants had a great name far beyond the borders of this country, and was a great seller of British prestige. It was a safeguard of the public's good and public sanctity of accounts; the confidence shown in its members was something to be treasured. He knew the standards of the Society would always be kept as high as they now stood.

Sir Frederick J. Alban, C.B.E., J.P., F.S.A.A., President of the Society, responded. Tracing the antiquity of accounts, he noted that one would find that in the very early days order had been created out of chaos.

The Society, as Mr. Hirst had said, was world-wide, and that was a distinguishing feature between it and other estimable bodies of accountants. In his recent visit to Canada and the U.S.A. he met Incorporated Accountants who were proud to be such, and held honoured positions in their communities.

There were members in South Africa, Australia, New Zealand and India, and those at head office were very proud to receive, certainly every week if not every day, messages from distant parts of the world from Incorporated Accountants who were delighted to keep in touch with the parent organisation.

Miss Hilda M. Claridge, said Sir Frederick, was the first woman Incorporated Accountant, and Miss Phyllis Ridgway the first articled clerk. He was pleased and proud to see both present at the dinner.

Mr. W. A. Heaton, President of the Bradford Society, proposed "Our Guests," and welcomed representatives from Manchester, Newcastle, Staffordshire and Hull among others. He was glad to see so many students present and noted a good attendance at lectures arranged for them.

Mr. N. Hind, headmaster of Keighley Boys' Grammar School, and Mr. R. E. Starkie, F.S.A.A., President of the Incorporated Accountants' District Society of Yorkshire, responded.

The report of the dinner of the South Wales District Society on April 29 is unavoidably held over to our next issue.

PRESIDENT'S DINNER

THE PRESIDENT OF THE SOCIETY OF INCORPORATED ACCOUNTANTS, Sir Frederick Alban, C.B.E., J.P., gave a dinner at the Savoy Hotel on May 24 in honour of the eminent accountant visitor from the United States, Mr. George O. May. Among the guests were: Mr. John W. Bailey (American Consul General), Mr. R. W. Bankes, C.B.E., Secretary, Institute of Chartered Accountants, Professor W. T. Baxter, Mr. B. H. Brier (President, Institute of Chartered Accountants), Mr. Frank Bower, Mr. S. P. Chambers, C.B., C.I.E., Sir William Coates, Mr. F. R. M. de Paula, O.B.E., Mr. Maurice Green, Mr. C. R. Heathcock (President, Chartered Institute of Secretaries), Sir Geoffrey Heyworth (Chairman, Lever Bros. Co., Unilever, Ltd.), Mr. A. V. Hussey (President, London Students' Society), Sir Russell Kettle, Mr. T. E. A. Killip (President, Certified and Corporate Accountants), Mr. George Lormer (Australia), Mr. E. H. Marker, C.B., Mr. Charles Norton, Sir Nicholas Waterhouse and Sir Alfred Wood.

The following members of the Council of the Society of Incorporated Accountants were also present: Mr. A. Stuart Allen (Vice-President), Mr. C. P. Barrowcliff, Mr. R. Wilson Bartlett, J.P., D.L., Mr. Robert Bell, Mr. H. Brown, O.B.E., Mr. E. Cassleton Elliott, Mr. A. Hannah, Sir Thomas Keens, J.P., D.L., Mr. A. E. Middleton, L.C.C., Mr. Bertram Nelson, J.P., Miss P. Ridgway, J.P., Mr. Henry Smith, Mr. Percy Toothill and Mr. Richard A. Witty.

COUNCIL MEETINGS

MAY 25, 1949

Present: Sir Frederick Alban, C.B.E., J.P. (President), in the chair, Mr. A. Stuart Allen (Vice-President), Mr. John Ainsworth, M.B.E., Mr. C. Percy Barrowcliff, Mr. R. Wilson Bartlett, J.P., D.L., Mr. Robert Bell, Mr. Henry Brown, O.B.E., Mr. E. Cassleton Elliott, Mr. A. Hannah, Mr. L. C. Hawkins, Mr. C. A. G. Hewson, Sir Thomas Keens, J.P., D.L., Mr. D. R. Matheson, M.A., LL.B., Mr. A. E. Middleton, L.C.C., Mr. Bertram Nelson, J.P., Mr. James Paterson, Mr. T. Harold Platts, Miss P. E. M. Ridgway, B.A., J.P., Mr. Henry Smith, Mr. R. E. Starkie, Mr. Percy Toothill, Mr. A. H. Walkey, Mr. Richard A. Witty and Mr. A. A. Garrett (Secretary).

MEMBERSHIP OF COUNCIL

A welcome was extended to Miss P. E. M. Ridgway (Hull) and to Mr. H. Brown (Rochester), who took their seats on the Council for the first time.

REPORTS OF COMMITTEES

The Council received reports from the Finance and General Purposes, Examination

and Membership, District Societies and Disciplinary Committees.

INLAND REVENUE DEPARTMENT

Consideration was given to a memorandum prepared at the request of and for submission to the Committee appointed under the chairmanship of Sir Eric Bamford to review the organisation and administrative methods of the Inland Revenue Department.

AUSTRALIAN CONGRESS ON ACCOUNTING, 1949

The Council accepted with thanks an invitation from the bodies of accountants in Australia to the Society to be represented at this Congress. The Council nominated Mr. A. A. Garrett, the Secretary, to be the official representative. Mr. Garrett thanked the Council for the resolution and for the opportunity to be present at the Congress.

DEATHS

The Secretary reported the death of each of the following members: Brittain, John Harold (Associate), Walsall; Butterworth, George Richard (Fellow), Hastings; Chadwick, John Edwin (Associate), Hyde; Fitzgerald, Joseph Martin (Fellow), Dublin; Heaton, Sir (John) Frederick (Fellow) London; Key, Bransby Ashton (Fellow), Johannesburg; McConnell, Frank Carleton (Fellow), Johannesburg; Mather, Frederick Maxfield (Associate), Morecambe; Webb, Alfred Rowley (Associate), Manchester; Wright, Walter William (Associate), Bournemouth.

RESIGNATIONS

The Council accepted with regret the following resignations: Bennett, John King (Associate), Wembley, from June 30, 1949; Lord, Lewis (Fellow), Stretford, from January 1, 1949.

A second meeting of the Council was held after the Society's annual general meeting.

ELECTION OF PRESIDENT AND VICE-PRESIDENT

Sir Thomas Keens proposed, and Mr. R. Wilson Bartlett seconded, the election of Mr. A. Stuart Allen as President of the Society. This was carried unanimously.

Mr. C. Percy Barrowcliff was elected Vice-President on the motion of Mr. A. Stuart Allen, seconded by Sir Frederick Alban.

COMMITTEES

Committees of the Council were elected. The members of the Disciplinary Committee were elected by ballot as required by the Articles.

MEETINGS OF COMMITTEES

A meeting was held of each Committee and the following chairmen and vice-chairmen were appointed: *Finance and General Purposes Committee*: Chairman, Mr.

E. Cassleton Elliott; Vice-Chairman, Mr. Percy Toothill. *Examination and Membership Committee*: Chairman, Mr. Walter Holman; Vice-Chairman, Mr. R. M. Branson. *District Societies Committee*: Chairman, Sir Thomas Keens; Vice-Chairman, Sir Frederick Alban. *Disciplinary Committee*: Chairman, Mr. R. Wilson Bartlett; Vice-Chairman, Mr. Richard A. Witty. *Parliamentary Committee*: Chairman, Sir Thomas Keens; Vice-Chairman, Mr. C. Percy Barrowcliff. *Articles and Bye-laws Committee*: Chairman, Mr. Richard A. Witty; Vice-Chairman, Sir Frederick Alban. *Development Committee*: Chairman, Mr. Bertram Nelson; Vice-Chairman, Mr. L. C. Hawkins.

BRANCHES AND DISTRICT SOCIETIES CONFERENCE

A CONFERENCE OF REPRESENTATIVES OF Branches and District Societies with members of the Council was held on May 26 at the Hall of the Chartered Auctioneers' and Estate Agents' Institute (by kind permission of the Council of that Institute).

Mr. A. Stuart Allen (President of the Society) was in the chair, and others present were: Mr. C. Percy Barrowcliff (Vice-President), Mr. J. Ainsworth, Sir Frederick Alban, C.B.E., J.P., Mr. R. Wilson Bartlett, J.P., D.L., Mr. Robert Bell, Mr. Henry Brown, O.B.E., Mr. E. Cassleton Elliott, Mr. A. E. Middleton, Mr. Bertram Nelson, J.P., Mr. James Paterson, Miss P. E. M. Ridgway, Mr. R. E. Starkie, Mr. Percy Toothill, Mr. A. H. Walkey, Mr. Richard A. Witty (members of the Council); Mr. J. A. Allen (London District), Mr. C. J. B. Andrews (South of England), Mr. B. A. Apps (South of England), Mr. L. Bailey (Liverpool), Mr. R. N. Barnett (London District), Mr. Mervyn Bell (Irish Branch), Mr. L. Booth (Hull), Mr. A. Boyd (Newcastle-upon-Tyne), Mr. A. J. Brindley (Yorkshire), Mr. A. Brodie (North Staffordshire), Mr. H. S. Bull (Devon and Cornwall), Mr. F. Carter (Manchester), Mr. R. R. Davies (S. Wales and Mon.), Mr. Tudor Davies (S. Wales and Mon.), Mr. J. Daykin (Nottingham, Derby and Lincoln), Mr. F. Dean (Bradford), Mr. A. Dickson (North Staffordshire), Mr. J. L. Dickson (Liverpool), Mr. J. Donaldson (North Lancashire), Mr. T. W. Dresser (Yorkshire), Mr. C. E. Edwards (S. Wales and Mon.), Mr. E. Emmerson (Yorkshire), Mr. F. W. Frodsham (Liverpool), Mr. W. R. Frost (Devon and Cornwall), Mr. C. S. Garraway (Sheffield), Mr. W. P. Gill (East Anglia), Mr. O. W. Gray (Swansea and South-West Wales), Mr. R. A. Hamilton (North Staffordshire), Mr. W. A. Heaton (Bradford), Mr. R. Huggins (Hull), Mr. A. V. Hussey (London Students),

Mr. H. F. Ingram (Nottingham, Derby and Lincoln), Mr. J. A. Jackson (London), Mr. T. Jewitt (Newcastle-upon-Tyne), Mr. D. S. Jones (Swansea), Mr. J. M. Keyworth (London Students), Mr. F. W. Knight (Leicester), Mr. H. G. Lawson (Sheffield), Mr. C. D. Lincoln (Leicester), Mr. C. Yates Lloyd (Manchester), Mr. J. Löve (Irish Branch), Mr. A. W. C. Lyddon (Devon and Cornwall), Mr. E. Lund (Cumberland and Westmorland), Mr. D. Mahony (London Students), Mr. J. W. Mee (Nottingham, Derby and Lincoln), Mr. R. J. Neely (Belfast), Mr. T. H. Nicholson (London), Mr. H. S. Parkin (Newcastle-upon-Tyne), Mr. P. D. Pascho (Devon and Cornwall), Mr. H. G. Pearsall (Birmingham), Mr. E. E. Porter (Swansea), Mr. L. Quinton (London), Mr. J. D. Radcliffe (Belfast), Mr. I. P. Ray (West of England), Mr. G. F. D. Rice (London Students), Mr. J. W. Richardson (Sheffield), Mr. C. R. Riddington (Leicester), Mr. F. P. L. Roberts (West of England), Mr. W. G. A. Russell (Birmingham), Mr. E. Smith (North Lancashire), Mr. H. F. Smith (Liverpool), Mr. J. E. Spoors (Newcastle-upon-Tyne), Mr. G. W. Street (Manchester), Mr. C. H. Sutton (East Anglia), Mr. A. D. Thomas (South Wales and Mon.), Mr. C. E. Thomas (Bradford), Mr. C. H. Tranmer (Hull), Mr. G. A. Watkins (Swansea), Mr. O. A. Watson (Leicester), Mr. C. Wheatley (Birmingham), Mr. G. D. Whipp (North Lancashire), Mr. W. S. Wilson (Bradford), Mr. G. A. Windsor (Yorkshire), Mr. J. Wood (Hull).

DISTRICT SOCIETIES AND BRANCHES

SCOTTISH BRANCH

MEETING OF SCOTTISH COUNCIL

A meeting of the Council of the Scottish Branch was held in Glasgow on April 1. Mr. D. R. Matheson, LL.B., presided.

The Secretary, Mr. James Paterson, reported that two Associate members of the Branch had been promoted to Fellowship, and on the numbers of candidates expected to sit for the examinations in May. The Hon. Secretary of the Glasgow Students' Society reported on recent meetings.

HULL

A very successful meeting was held in Hull on March 16 in the form of a mock annual general meeting of shareholders of a company and its subsidiaries. The event was organised by a joint committee of the Chartered, Incorporated and Certified Accountants and the Chartered Institute of Secretaries. The Law Society also joined in and their members were invited. Mr. C. M. Strachan, F.C.A., was a capable

chairman, ably assisted by Mr. John Wood, A.S.A.A. (Incorporated District Society President) as managing director. A large hall was crowded to capacity.

The group accounts, notices and other documents contained many deliberate mistakes and part of the procedure at the meeting was similarly out of order.

In view of the success of this joint meeting, the Committee responsible for the compilation of the documents will be pleased to make them available for any future meeting held under similar joint auspices.

PERSONAL NOTES

Mr. D. R. Matheson, M.A., LL.B., F.S.A.A., a member of the Council of the Society of Incorporated Accountants and Auditors and the President of the Scottish Branch, has recently been elected to the Town Council of Edinburgh and has been appointed by his colleagues a Bailie of the City.

Mr. C. P. McCarthy, M.COMM., Incorporated Accountant, Cork, was the chairman of a committee appointed by the Cork County Council to examine and report on the advisability of making an issue of County Stock to provide capital funds and to redeem existing loans. The committee has recently issued its report. (Mr. McCarthy was specially appointed chairman as he is not a member of the County Council.) Mr. McCarthy has presented a copy of the report to the Society's Library.

Mr. John Nelson, A.S.A.A., has been appointed Town Chamberlain of the Royal Burgh of Dumbarton, in succession to Mr. A. B. Brackenridge, A.S.A.A., who has been appointed Divisional Financial Officer to the South-Western Division of the Scottish Gas Board.

Mr. Norman E. Lamb, F.S.A.A., a partner in Messrs. Alban & Lamb, Incorporated Accountants, has been appointed a Justice of the Peace for the borough of Newport, Mon.

Following the retirement of Mr. C. Wills as manager of the Exchange Telegraph Company, Ltd., after 52 years' service, Mr. William C. Stevens, F.S.A.A., the present secretary and a director of the company, has been appointed general manager; he continues to hold office as a director. Mr. T. F. Watson, A.S.A.A., Chief Accountant, succeeds Mr. Stevens as secretary of the company.

Mr. Fred Bunting, F.S.A.A., F.I.M.T.A., Borough Treasurer of Luton, has been appointed Chief Accountant to the Northern Gas Board.

Messrs. C. Percy Barrowcliff & Co., Incorporated Accountants, Middlesbrough and Leeds, have taken into partnership Mr. A. W. McBride, A.S.A.A.

Messrs. Savage, Simpson & Co. and Messrs. Wreford & Co. have amalgamated their practices. The combined practice will be carried on under the style of Welford Simpson & Co., Incorporated Accountants at 4, Tokenhouse Buildings, King's Arms Yard, Moorgate, London, E.C.2. Mr. L. C. Savage, A.S.A.A., has been compelled by ill health to retire.

Messrs. E. J. Williams & Co., Incorporated Accountants, Carlisle, have admitted to partnership Mr. D. Graham, A.S.A.A.

Mr. R. H. Jenkins, F.C.A., Mr. L. A. Pollard, A.S.A.A., and Mr. J. D. Jones, A.C.A., have acquired the practice of Messrs. Gladstone, Tittley & Co., 74 Victoria Street, London, S.W.1, and will continue it under the same firm name. Mr. Pollard also remains in practice under his own name.

Messrs. O. W. Davies, Mumford & Co., Incorporated Accountants, Kidderminster have admitted to partnership Mr. R. Crumpton, A.S.A.A.

Messrs. Baker & Co., Northampton and Leicester, announce that Mr. B. A. Schanschief, F.C.A., has retired from the firm to take up a commercial appointment. They have admitted to partnership Mr. T. G. Niven, M.A., C.A., Mr. J. W. Walkden, A.C.A., and Mr. J. B. Corrin, A.C.A. The name of the firm is unchanged.

OBITUARY

SIR FREDERICK HEATON

We regret to record that Sir John Frederick Heaton, F.S.A.A., died on April 27, at the age of 68. He became a member of the Society of Incorporated Accountants in 1908, gaining Honours in the Final examination. After some years in the profession and with limited companies in Yorkshire, he came to London in 1916 as accountant to Thomas Tilling, Ltd. The subsequent development of the company—which at that time had still to be converted from horse to motor traction—owed much to his wise administration. As chairman and managing director, Sir Frederick conducted the negotiations with the British Transport Commission which resulted in the payment of nearly £25 million compensation for the nationalisation of the company's business.

Sir Frederick was a member of the Finch Committee set up by the Army Council in 1941, and also of the Inland Transport War Council. In 1943 he became, on the nomination of the Government, unpaid chairman of a group of aircraft manufacturing companies. For several years he was chairman of the Watford and District Peace Memorial Hospital. He was knighted in 1942.

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